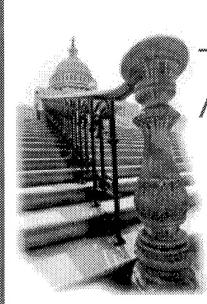
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Message from the Comptroller General

t is indeed a pleasure to present the *Comptroller General's 1998*Annual Report—and for two reasons. First, 1998 was a productive year, one in which the energy and dedication of GAO's employees once again yielded significant contributions to congressional oversight and decisionmaking, for which every GAO employee can be justifiably proud. Second, presenting this report gives me a chance to say how pleased and honored I am to have joined the GAO team. No federal agency better captures the honorable ideals of public service, and none faces greater prospects for helping government fulfill its promises both to this and future generations of Americans.

came to GAO impressed by its history and its reputation for meeting new challenges. When the agency opened its doors in 1921, most of its employees were audit clerks. Their job was to review the paperwork for the government's financial transactions. Over the decades, as the size and scope of government changed, the Congress gave GAO new and increasingly diverse and complex responsibilities. Today, the agency that once checked government vouchers has become a multidisciplinary professional services organization equipped to handle the Congress's toughest audit and evaluation assignments.

hile GAO's responsibilities and the makeup of its workforce have changed significantly over the years, GAO's employees share something important with those who have preceded them. They share an enduring set of core values that define who they are and what kind of organization they serve. These values have been expressed in varying ways in the past, but they can be captured today in three simple words: accountability, integrity, and reliability.

ACCOUNTABILITY describes the nature of GAO's work. GAO helps the Congress oversee federal programs and operations to assure accountability to the American people. GAO's evaluators, auditors, lawyers, economists, public policy analysts, information technology specialists, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American public. GAO accomplishes its mission through a variety of activities that include financial audits, program reviews, investigations, legal support, and policy/program analyses.

INTEGRITY describes the high standards that GAO sets for itself in the conduct of its work. GAO takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all of its activities. Integrity is the foundation of reputation, and GAO's approach to its work assures both.

RELIABILITY describes GAO's goal for how its work is viewed by the Congress and the American public. GAO produces high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

have three primary goals for GAO. First, GAO should be a world-class organization, one that leads by example in every major operational area. From strategic planning to financial management, information technology, human capital practices, and client service, GAO should be the federal government's model for best practices. Second, GAO is fundamentally about good government and should play a major role in helping to continuously improve the efficiency, effectiveness, accountability, and integrity of the federal government. Third, what Americans think of their government and their public servants is important, and one goal of GAO's work should be to improve the public's respect for and confidence in its government.

n short, I see a GAO that works for and is accountable to the Congress—on both ends of the Hill and both sides of the aisle. GAO must also take a candid but constructive approach to its role of assisting congressional oversight of the executive branch. I see a GAO that not only discovers various problems with federal agencies and programs but also identifies and shares new ideas and best practices to help correct them. I also see a GAO that provides the Congress with timely, accurate, and useful information, not just on current operational and program issues facing the federal government but also on emerging and longer-term issues as well.

he many products summarized in this report's next section, "Highlights of GAO Reports and Testimony," convey the range of issues that GAO has addressed in its recent work. The list is by no means comprehensive. In fiscal year 1998, GAO produced 1,573 audit and evaluation products in support of the Congress's legislative and oversight needs, including 1,136 reports to the Congress and agency officials, 181 formal congressional briefings, and 256 congressional testimony statements delivered by 71 GAO executives. GAO's work contributed to legislative and executive actions resulting in about \$20 billion in measurable financial benefits. No less important were benefits that could not be measured in dollars but that, by improving practices or operations, had the potential to enhance taxpayers' confidence and trust in their government.

uring this past year, GAO has helped the Congress address the Year 2000 computing crisis, producing detailed findings on agencies' progress in fixing their information technology systems, recommendations for policymakers, and guidance for agencies based on best practices. GAO has also made significant contributions to management reform in the federal sector. The Congress passed legislation this decade creating a framework for modernizing the federal government's financial systems, making wiser information technology investments, and managing the government for results. GAO's work has assisted the Congress in overseeing implementation of these reforms and has helped agencies overcome the barriers to implementation.

has also been deeply involved in helping the Congress address important national policy issues. For example, on the domestic front, the Congress faces the formidable job of making Social Security and Medicare viable in the next century. Other issues such as airline safety, nuclear waste disposal, food safety, environmental protection, and homelessness all require policymakers' attention. In the national security arena, the Congress must deal with defense restructuring and other complex challenges of the post-Cold War environment, such as countering terrorism; sustaining multilateral peacekeeping missions; and determining how well multilateral institutions such as the International Monetary Fund, the United Nations, and the World Trade Organization are serving U.S. interests. On these and other issues, the Congress has looked to GAO for the objective information, options, and analysis that are indispensable to informed and timely decisionmaking.

o matter how GAO measures the results of its work, one thing is certain: There will be plenty of opportunities to make an even bigger difference in the coming years. New issues and demands emerge continually, and GAO must be prepared to respond. Within the next several years, as the broader themes of the 21st century come into focus—America's changing demographics, for example, with their sweeping implications for the nation's health care system, entitlement programs, and employment

policies—the Congress is certain to call on GAO again to help it gather the facts, understand the options, and assess the need for action.

s GAO up to the challenge? I am certain that it is. The GAO professionals I have met since my arrival have come through a period of unprecedented staffing and budget reductions while maintaining their energy and commitment to the people's work. That energy and commitment are what fuels the agency. At the same time, like any professional services organization, GAO needs to improve continuously. To do so, it will need to make better strategic investments in its human capital: better training, better performance measurement and rewards systems, and better information technology to help GAO employees "work smarter."

nother key to capacity building at GAO will be the introduction of "matrix management" concepts. Matrix management means taking an integrated approach to mission accomplishment, transcending the boundaries among organizational components and functions so that the capacity of the whole will exceed the sum of its parts. The issues with which the Congress must contend are often multidimensional and crosscutting in nature, and the questions coming GAO's way will be increasingly broad and demanding. Matrix management is a key to helping the Congress find integrated solutions to the complex issues facing the nation.

GAO'S employees and their predecessors have earned GAO its reputation as one of the best agencies in the federal government. As the Congress takes on the challenges of the new century, GAO will be there to help it make a positive and lasting difference for all Americans.

DAVID M. WALKER

COMPTROLLER GENERAL OF THE UNITED STATES

In fiscal year 1998, GAO prepared 1.573 audit and evaluation products, including 1,136 reports to Congress and agency officials 181 formal congressional briefings, and 256 congressional testimony statements delivered by 71 GAO executives. GAO also issued 1.782 legal decisions.

Highlights

REPORTS AND TESTIMONY



CTOBER

1997

U.S. POSTAL SERVICE: LITTLE PROGRESS MADE IN ADDRESSING PERSISTENT LABOR-MANAGEMENT PROBLEMS

Problems in labor-management relations have contributed to a sometimes contentious work environment and lower productivity for the Postal Service. These problems are the result of a failure by the Service, the four major postal unions, and the three management associations to reach consensus on strategies for resolving their problems. With the significant future challenges the Service faces to compete in a fast-moving communications marketplace, it must address its labor-management issues. (GGD-98-1)

CONSUMER PRICE INDEX: MORE FREQUENT UPDATING OF MARKET BASKET EXPENDITURE WEIGHTS IS NEEDED

The consumer price index (CPI) is the principal source of information on consumer prices and inflation in the United States. Because the CPI is legislatively connected to adjusting benefits payments for inflation, it should reflect current consumer expenditures as much as practical. To make the CPI a more timely representation of consumer expenditures, GAO recommends that the Bureau of Labor Statistics update the expenditure weights of the CPI's market basket of goods and services more frequently than every 10 years. (GGD/OCE-98-2)

MAMMOGRAPHY SERVICES: IMPACT OF FEDERAL LEGISLATION ON QUALITY, ACCESS, AND HEALTH OUTCOMES

The Mammography Quality Standards Act of 1992 (MQSA) established a number of requirements aimed at strengthening mammography quality, including requiring accreditation of mammography facilities. Improving the quality of mammography images should lead to more accurate interpretation by physicians and to improved early detection of breast cancer. However, neither data nor research methodologies are in place to clearly establish these links. GAO found no indication that access to mammography services has declined as a result of MQSA. Nationwide, the number of facilities that stopped offering mammograms was nearly offset by the number of new entrants into the field. (HEHS-98-11)

FEDERAL HOUSING ENTERPRISES: OPERATIONS OF THE OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Testimony of Thomas J. McCool, Director, Financial Institutions and Markets Issues, General Government Division

The mission of the Office of Federal Housing Enterprise Oversight (OFHEO) is to help ensure the safety and soundness of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. To fulfill this mission, OFHEO must establish risk-based capital standards that will withstand the rigors of a complex stress test and implement a comprehensive and timely examination program. OFHEO missed its December 1994 statutory deadline to implement the capital standards and has not fully implemented the examination program. (T-GGD-98-25)

OTC DERIVATIVES: ADDITIONAL OVERSIGHT COULD REDUCE COSTLY SALES PRACTICE DISPUTES

The extent to which users of over-the-counter derivatives and other complex financial instruments are protected by existing sales practice requirements depends on the type of product and the dealer involved. This report examines the extent to which these products are used, customer satisfaction, and how dealers and customers view their relationship as part of these transactions. It includes a recommendation to the President's Working Group on Financial Markets to develop a mechanism for monitoring whether additional sales practice protections may be needed. (GGD-98-5)

DEFENSE IRM: Poor Implementation of Management Controls Has Put Migration Strategy at Risk

The Department of Defense started its Corporate Information Management initiative to save billions of dollars by streamlining operations and deploying standard information systems to support common business operations. A key part of this initiative is the migration effort, which involves replacing mefficient automated information systems. From fiscal years 1995 through 2000, Defense plans to spend at least \$18 billion on migration. Despite the substantial investment, Defense did not adhere to its own decisionmaking and oversight process and this continues to be an effort at serious risk for waste and mismanagement. (AIMD-98-5)



OVEMBER

1997

MEDICARE: HOME OXYGEN PROGRAM WARRANTS CONTINUED HCFA ATTENTION

In fiscal year 1996, almost 480,000 Medicare beneficiaries received supplemental oxygen at home at a cost of about \$1.7 billion. GAO reviewed prices Medicare paid for home oxygen and found it would have saved over \$500 million had it reimbursed its oxygen suppliers at the rate paid by the Department of Veterans Affairs. As a result of GAO's findings, the Congress mandated that Medicare pay competitive marketplace costs for home oxygen beginning January 1998. (HEHS-98-17)

ILLEGAL ALIENS: EXTENT OF WELFARE BENEFITS RECEIVED ON BEHALF OF U.S. CITIZEN CHILDREN

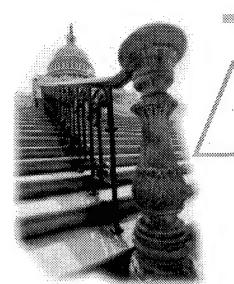
A child born in the United States to an illegal alien obtains U.S. citizenship at birth, regardless of the parents' immigration status. This child, as any other citizen in need, may receive welfare benefits. In fiscal year 1995, about \$1.1 billion in welfare and food stamp benefits were provided to households with an illegal alien parent for the well-being of his or her citizen child. An overwhelming majority of households receiving these benefits were in California, New York, Texas, and Arizona. The 1996 welfare reform legislation did not affect the eligibility of illegal aliens' citizen children, who remain eligible for assistance. (HEHS-98-30)

UNITED NATIONS: STATUS OF INTERNAL OVERSIGHT SERVICES

Since its creation in 1994, the Office of Internal Oversight Services (OIOS) has established itself as the internal oversight mechanism for the United Nations' Secretary General. OIOS is in a position to be operationally independent, has overcome certain start-up problems, and has developed policies and procedures for much of its work. However, more can be done to help ensure that the information it presents, the conclusions it reaches, and the recommendations it makes can be relied upon as accurate, fair, and balanced. To this end, GAO suggests some actions that could be taken by OIOS. To help focus attention on these matters, GAO recommends that the U.S. Secretary of State encourage OIOS to address the noted suggestions. (NSIAD-98-9)

HEALTH INSURANCE: Coverage Leads to Increased Health Care Access for Chiedren

Although the availability of health insurance can considerably increase a child's access to health care, it does not guarantee it. Barriers to using health care services include low family income and education levels, limited availability of neighborhood primary health care facilities, lack of transportation, and language differences. Lack of insurance can inhibit parents from trying to get care for their children and can lead providers to offer less-intensive services when care is needed. (HEHS 98-14)



ECEMBER

1997

H-2A AGRICULTURAL GUESTWORKER PROGRAM:

CHANGES COULD IMPROVE SERVICES TO EMPLOYERS AND BETTER PROTECT WORKERS

The H-2A program's purpose is to ensure agricultural employers an adequate labor supply, while at the same time protecting the jobs, wages, and working conditions of domestic farmworkers. A widespread farm labor shortage requiring a large number of foreign workers is not likely, although localized labor shortages may exist for specific crops or geographical areas. In this report, GAO makes recommendations that would reduce the cost to and burden on employers and offer protection to both domestic and H-2A workers. (HEHS-98-20)

COMBATING TERRORISM: SPENDING ON

GOVERNMENTWIDE PROGRAMS REQUIRES BETTER MANAGEMENT AND COORDINATION

Billions of dollars are being spent by more than 40 government organizations in combating terrorism, but the specific amount is unknown and difficult to determine. Because defined priorities for combating terrorism are lacking, the Congress does not have assurance that funding gaps have not occurred, that the highest priority requirements are being met, and that duplicative terrorism-related activities are not being funded. In this report, GAO recommends that steps be taken to ensure that priorities are established to implement a national counterterrorism policy and that spending is analyzed in relation to these established priorities. (NSIAD-98-39)

SOCIAL SECURITY REFORM: Implications for Women's Retirement Income

Many of the social security reform proposals call for the creation of mandatory savings accounts that allow workers to make their own investment decisions. Men and women who decide to take on more risk could potentially earn higher rates of return. GAO found that women tend to be more risk averse than men in financial decisionmaking and may choose more conservative investments that earn lower rates of return. Even if men and women make the same contribution to their accounts, investing in riskier but higher-yielding assets could result in higher account balances while conservative investments could result in lower account balances. (HEHS-98-42)

SPACE SURVEILLANCE: DOD AND NASA NEED CONSOLIDATED REQUIREMENTS AND A COORDINATED PLAN

The number of manmade space objects orbiting the earth has increased dramatically. The Department of Defense's existing space surveillance network is not capable of providing the National Aeronautics and Space Administration the data it needs to predict collisions between objects in space and multibillion dollar space programs, such as the space station. In this report, GAO recommends that governmentwide space surveillance requirements be established with a plan that can examine alternatives and ensure that funding is directed to the best possible alternatives. (NSIAD-98-42)

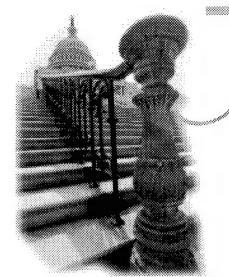
HUMAN TISSUE BANKS: FDA Taking Steps to Improve Safety, but Some Concerns Remain

The Food and Drug Administration (FDA) has expanded its oversight to include the growing field of tissue-based therapies. It has issued regulations concerning medical screening, infectious disease testing, maintenance of documentation, and procedures for retaining, recalling, and destroying human tissue. In this review, GAO identified a number of safety problems and made recommendations to address them. For example, FDA does not have a registry of tissue facilities and, should there be a potential public health emergency, would not be able to alert facilities of a dangerous safety situation. (HEHS-98-25)

NOT-FOR-PROFIT HOSPITALS: Conversion Issues

PROMPT INCREASED STATE OVERSIGHT

Growing competition, spurred by the growth of managed care, and the need for capital investment are driving not-for-profit hospitals to sell to or establish joint ventures with for-profit companies. Generally, not-for-profit hospitals are viewed as charitable assets that belong to communities. There are concerns about the potential loss of community benefits and the use of proceeds resulting from these conversions. Some states are becoming more involved in overseeing the conversion process and monitoring the terms of these transactions. State oversight may address some of the concerns related to obtaining fair value for charitable assets, public disclosure, and the appropriate use of conversion proceeds. (HEHS-98-24)



ANUARY

1998

NUCLEAR NONPROLIFERATION AND SAFETY:

Uncertainties About the Implementation of U.S.-Russian Plutonium Disposition Efforts

The United States hopes to reduce the U.S. plutonium stockpile by about half over the next 25 years at a cost of nearly \$2.2 billion. The United States is attempting to influence Russia to reduce its plutonium stockpile, which is estimated to be twice as large as the U.S. stockpile. The cost for Russia could range up to \$2 billion. It is uncertain if Russia—and the international community, including the United States—is willing to make the financial commitment to achieve needed reductions of the Russian plutonium stockpile. (RCED-98-46)

MILITARY RECRUITING: DOD COULD IMPROVE ITS RECRUITER SELECTION AND INCENTIVE SYSTEMS

In response to congressional concern about the cost of military recruiting, training, and retention, GAO reviewed the services' recruiting processes. It found that the Marine Corps and Navy emphasize the importance of retention and use retention data in measuring and rewarding their recruiters. The Air Force has the most extensive screening to select prospective candidates for recruiting duty, focusing on the ability to communicate effectively and a test to assess personality. Poor physical condition among recruits is a contributing factor in early attrition yet only the Marine Corps conducts regular physical training and fitness testing. GAO recommended that successful recruiting and retention practices be replicated by the other services. (NSIAD-98-58)

RURAL UTILITIES SERVICE: OPPORTUNITIES TO OPERATE ELECTRICITY AND TELECOMMUNICATIONS LOAN PROGRAMS MORE EFFECTIVELY

This report identifies a number of options that the Congress could consider to make the Rural Utilities Service's (RUS) electricity and telecommunications loan programs more effective and less costly. It also identifies ways to decrease RUS vulnerability to losses. To make more effective use of RUS limited loan funds, GAO suggests that loans should be targeted to areas with small populations and should focus on borrowers who cannot qualify for conventional financing. Losses could be limited by establishing loan and indebtedness limits and by having lenders holding guaranteed loans assume greater financial risk. (RCED-98-42)

MEDICARE: HCFA Faces Multiple Challenges to Prepare for the 21st Century

Testimony of William J. Scanlon, Director, Health Financing and Systems Issues, Health, Education and Human Services Division

Substantial program growth and greater responsibilities appear to be outstripping the Health Care Financing Administration's (HCFA) capacity to manage the Medicare program. Legislative reforms have been enacted that have increased HCFA's Medicare authority. Other factors are challenging HCFA, including the need to address the Year 2000 problem and other information technology and information security issues and the loss of experienced staff. (T-HEHS-98-85)

MANAGING FOR RESULTS: AGENCIES' ANNUAL PERFORMANCE PLANS CAN HELP ADDRESS STRATEGIC PLANNING CHALLENGES

GAO reviewed the strategic plans of 24 major departments and agencies and found they provided a workable foundation for the Congress to use in its appropriations, budget, authorization, and oversight responsibilities. In GAO's view, continued progress is needed in how agencies address three difficult planning challenges: setting a strategic direction, coordinating crosscutting programs, and ensuring the capacity to gather and use performance and cost data. (GGD-98-44)

DEFENSE INVENTORY MANAGEMENT: EXPANDING USE OF BEST PRACTICES FOR HARDWARE ITEMS CAN REDUCE LOGISTICS COSTS

The Department of Defense has a \$5.7 billion hardware inventory that costs approximately \$1 billion per year to manage and distribute to users. There is a high potential for Defense to greatly expand the use of private sector best practices to improve logistics operations and lower costs. Also, ordering supplies as they are needed would enable the services to lessen ordering inventory that may become obsolete. Top Defense officials need to change the inventory management culture and better motivate the military services to pursue commercial best practices. (NSIAD-98-47)

SOCIAL SECURITY DISABILITY INSURANCE:

Multiple Factors Affect Beneficiaries' Ability to Return to Work

Social Security Disability Insurance (DI) is one of the largest federal programs providing cash assistance to people with disabilities. In 1996, about 4.4 million working age people received DI cash benefits. The average monthly cash benefit was \$704; the annual cost was about \$40 billion. Not more than 1 in 500 DI beneficiaries leave the rolls by returning to work. Factors that affect attempts to return to work are financial need and the desire to enhance self-esteem. Also helpful are provisions that temporarily continue cash benefits and health care coverage when beneficiaries first reenter the workforce. (HEHS-98-39)

BEST PRACTICES: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure

This report discusses approaches taken by the Boeing Company and the British Ministry of Defence to reduce their research, development, testing, and evaluation (RDT&E) infrastructure. Elements critical to their restructuring efforts were (1) a "crisis" that served as a catalyst to spark action, (2) an independent authority to overcome parochialism and political pressures, (3) a mission focused on the organization's overall goals and strategies, (4) an inventory of the existing infrastructure, and (5) accurate and comparable data on infrastructure cost and utilization rates. In this report, GAO suggests that the Congress may wish to initiate an effort to reduce federal RDT&E infrastructure that would include these five critical elements. (NSIAD/RCED-98-23)



EBRUARY

1998

FOOD STAMP OVERPAYMENTS: Thousands of Deceased Individuals Are Being Counted as Household Members

Nearly 26,000 deceased individuals in California, Florida, New York, and Texas were included in households receiving food stamps during 1995 and 1996. These households improperly collected an estimated \$8.5 million in food stamp benefits and compromised the integrity of the Food Stamp Program. GAO recommended that the Congress enact legislation to permit the Social Security Administration to give states the data needed to identify deceased individuals included in food stamp households. Until then, GAO recommended that the Department of Agriculture emphasize to the states the need to identify and remove deceased individuals from the rolls of food stamp households. (RCED-98-53)

HEALTH INSURANCE STANDARDS: New Federal Law Creates Challenges for Consumers, Insurers, Regulators

The Health Insurance Portability and Accountability Act is a complex law, and its implementation has created challenges for consumers, insurers, and regulators. Some consumers wanting to purchase insurance coverage are being charged significantly higher rates—as much as 140 to 600 percent of the standard premium. There are a number of early implementation hurdles that may be resolved as federal and state regulators and insurance carriers gain experience in working with the new law. (HEHS-98-67)

HISTORIC PRESERVATION: Cost to Restore Historic Properties at Historically Black Colleges and Universities

An estimated \$755 million is needed to restore and preserve 712 properties at 103 historically black colleges and universities (HBCU). This report presents the most comprehensive data collected to date on the number of historic properties at HBCUs and the estimated costs to restore those properties. The cost estimates are based on self-reported data and are subject to limitations. However, these data are a useful starting point for determining the total restoration requirements at HBCUs. Schools have funds set aside to cover less than a tenth of the estimated restoration costs. (RCED-98-51)

BEST PRACTICES: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment

This report assesses whether commercial product development practices offer ways to improve the process used at the Department of Defense to prepare weapon systems for production. GAO makes recommendations to the Secretary of Defense and presents matters for congressional consideration, all of which are intended to create the necessary environment to ensure Defense's success in improving the transition of weapons from development to production. (NSIAD-98-56)

AVIATION SAFETY: Weaknesses in Inspection and Enforcement Limit FAA in Identifying and Responding to Risks

Inspections conducted by the Federal Aviation Administration (FAA) provide an early warning system for identifying potential threats to aviation safety and security. FAA's enforcement program contains various options to respond to violations from issuing warnings to suspending operating certificates. In this report, GAO recommends that FAA improve the way it collects safety and security information and target its resources to the violations and enforcement cases with the greatest potential impact. (RCED 98-6)

SOCIAL SECURITY: RESTORING LONG-TERM SOLVENCY WILL REQUIRE DIFFICULT CHOICES

Testimony of Jane L. Ross, Director, Income Security Issues, Health, Education and Human Services Division

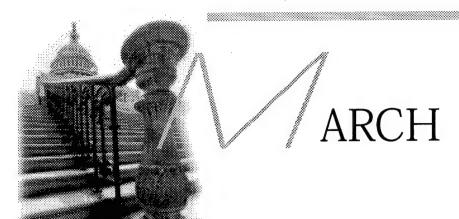
Restoring Social Security's long-term solvency presents complex and important choices. These choices include how reforms will balance income adequacy and individual equity; how risks are shared as a community or assumed by individuals; how reforms assign roles and responsibilities among government, employers, and individuals; whether retirement will start earlier or later and how large retirement incomes will be; and how much the nation saves and invests in its capacity to produce goods and services. (T-HEHS-98-95)

FOREST SERVICE: BARRIERS TO GENERATING REVENUE OR REDUCING COSTS

Generating revenue and reducing costs are not mission priorities for the Forest Service. Legislative, administrative, and judicial decisions have required the Forest Service to shift its emphasis away from generating revenue. Even when the Congress has provided the Forest Service with the authority to obtain fair market value for goods or recover costs for services, the agency often has not done so. In this report, GAO recommends that to hold the Forest Service accountable, its strategic plan needs to include goals and performance measures relating to obtaining fair market value and reducing costs. (RCED-98-58)

SECTION 8 TENANT-BASED HOUSING ASSISTANCE: OPPORTUNITIES TO IMPROVE HUD'S FINANCIAL MANAGEMENT

Through its rental housing programs, the Department of Housing and Urban Development (HUD) helps about 4.7 million low-income households to obtain safe, decent, and affordable places to live. In 1997, HUD reported that enough budget authority had accumulated unneeded and unspent over the 24-year life of the rental housing programs to fully fund the Section 8 program for fiscal year 1996. Until then, the Department had been unaware of the magnitude of the growing balances in this account. In this report, GAO identifies HUD's need to improve coordination and oversight among program, budget, and financial management offices to achieve more reliable budget estimates. (RCED-98-47)



FINANCIAL AUDIT: 1997 CONSOLIDATED FINANCIAL STATE-MENTS OF THE UNITED STATES GOVERNMENT

For the first time in the nation's history, the federal government prepared consolidated financial statements that have been subjected to an independent audit. GAO identified significant weaknesses in agency financial systems, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls that prevented it from forming an opinion on the reliability of the governmentwide statements. A considerable effort is being made to address these problems. Annual financial statement audits are essential to ensuring the effectiveness of the improvements now underway. (AIMD-98-127)

DECENNIAL CENSUS: Preparations for Dress Rehearsal Underscore the Challenges for 2000

Testimony of L. Nye Stevens, Director, Federal Management and Workforce Issues, General Government Division

Although the dress rehearsal was originally intended as the last, large-scale operational test of the overall design of the 2000 census, it will instead leave a number of design and operational questions unresolved. A properly designed evaluation program for the dress rehearsal that provides information on the cost, performance, required resources, timing of various census operations, and the quality and completeness of census data is essential for the Census Bureau to assess the feasibility of its operational plans. (T-GGD-98-84)

DRUG CONTROL: STATUS OF COUNTERNARCOTICS EFFORTS IN MEXICO

Testimony of Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division

Mexico continues to be the primary transit country for cocaine entering the United States from South America, as well as a major source country for heroin, marijuana, and methamphetamines. With U.S. assistance, Mexico has taken several steps to reduce the flow of illegal drugs into the United States, although results of its actions have yet to be seen. (T-NSIAD-98-129)

NUCLEAR WASTE: Understanding of Waste Migration at Hanford Is Inadequate for Key Decisions

The Department of Energy (DOE) cannot answer basic questions about what radioactive and hazardous wastes are in the area above the water table—called the vadose zone—at the Hanford Site in southeastern Washington State. DOE does not know how quickly these wastes are migrating, the degree to which they might contaminate the underlying groundwater, and the risks of contamination to current and future residents of the area. In this report, GAO recommends that the Department develop a comprehensive vadose zone strategy that addresses cleaning up the high-level waste tank farms and the cribs, ponds, trenches, and other waste sites. (RCED-98-80)

EXECUTIVE GUIDE: Measuring Performance and Demonstrating Results of Information Technology Investments

Studying practices of both public and private sector organizations, GAO developed a generic information technology (IT) performance measurement approach that focuses on three primary practice areas: aligning IT systems with agency missions, goals, and programs; constructing measures that determine how well IT is supporting strategic, customer, and internal business needs; and implementing performance measurement mechanisms at various decisionmaking levels within an organization. (AIMD-98-89)

ILLEGAL ALIENS: CHANGES IN THE PROCESS OF DENYING ALIENS ENTRY INTO THE UNITED STATES

The Illegal Immigration Reform and Immigrant Responsibility Act of 1996 established new procedures for dealing with aliens entering the United States with false or improper documents and for deciding who may be eligible for asylum. Known as "expedited removal," the new process gives immigration and naturalization officers, rather than immigration judges, authority to formally order these aliens removed. The process also limits the rights of aliens to appeal a removal decision. (GGD-98-81)

BEST PRACTICES: DOD CAN HELP SUPPLIERS CONTRIBUTE MORE TO WEAPON SYSTEM PROGRAMS

In both the commercial and defense sectors, suppliers play a key role in the development and manufacture of major products. The leading commercial firms have found that developing relationships with key suppliers gives them a competitive edge in the cost, design, quality, and development time of their products. In this report, GAO suggests the Secretary of Defense develop and communicate policies that emphasize the importance of working more productively with suppliers and provide incentives for optimizing supplier relations. (NSIAD-98-87)

INTERCITY PASSENGER RAIL: ISSUES ASSOCIATED WITH A POSSIBLE AMTRAK LIQUIDATION

The costs associated with a possible Amtrak liquidation are difficult to predict because they depend on such uncertainties as Amtrak's debt and financial obligations, the market value of its assets, and the proceeds from the sale of its assets. As of September 1997, data from Amtrak showed that its debt to creditors was about \$2.2 billion. The value of one of its largest assets, real property on the Northeast Corridor, was about \$4.3 billion. However, the market value of this property is untested. (RCED-98-60)

CONGRESSIONAL REVIEW ACT: IMPLEMENTATION AND COORDINATION

Testimony of Robert P. Murphy, General Counsel

The Congressional Review Act (CRA) gives the Congress an important tool to use in monitoring the regulatory process, and GAO believes that the effectiveness of that tool can be enhanced. The Office of Management and Budget should play a more proactive role in promoting awareness in the executive branch of the CRA and its requirements and in ensuring compliance by agencies. It should also provide clarifying guidance as to what is a rule that is subject to CRA and provide the necessary oversight of the processes used by executive branch agencies in identifying these rules. (T-OGC-98-38)

DEFENSE ACQUISITION: IMPROVED PROGRAM OUTCOMES ARE POSSIBLE

Testimony of Louis J. Rodrigues, Director, Defense Acquisitions Issues, National Security and International Affairs Division

The Department of Defense could acquire better weapon systems faster and cheaper by using private sector best practices where decisions are made based on knowledge and by changing the incentives that drive behavior in the military acquisition culture. GAO suggests that weapon system acquisitions could be improved if Defense and the Congress were able to foster an environment that would give managers incentives for applying best practices. (T-NSIAD-98-123)

FOOD AND DRUG ADMINISTRATION: IMPROVEMENTS NEEDED IN THE FOREIGN DRUG INSPECTION PROGRAM

As much as 80 percent of the bulk pharmaceutical chemicals used by U.S. manufacturers to produce prescription drugs is imported. Moreover, the number of finished drug products manufactured abroad for the U.S. market is increasing. The Food and Drug Administration (FDA) inspects foreign manufacturers to help ensure that pharmaceutical products entering the United States meet safety, purity, and quality standards. In prior years, serious problems were identified with FDA's foreign inspection program. GAO's study found that problems remain, raising questions about FDA's ability to ensure that American consumers are protected from adulterated drug products. (HEHS-98-21)

NAVY AVIATION: F/A-18E/F Development and Production Issues

The F/A-18E/F aircraft is being developed to replace current F/A-18C/D aircraft and is intended to perform Navy fighter escort, strike, fleet air defense, and close air support missions. The Navy has identified numerous operational performance problems with the F/A-18E/F. The most challenging technical issue is "wing-drop," which causes the aircraft to rock back and forth when it is flying at the altitude and speed at which air-to-air combat maneuvers are expected to occur. GAO recommends that the Navy not contract for additional F/A-18E/F aircraft until the identified deficiencies have been corrected. (NSIAD-98-61)

GOVERNMENT-SPONSORED ENTERPRISES: FEDERAL OVERSIGHT NEEDED FOR NORMORTGAGE INVESTMENTS

Government-sponsored enterprises (GSE) receive benefits from their federal charters, the most important of which is a reduction in debt costs due to investors' perception that the federal government would not allow GSEs to default on their obligations. To ensure that GSEs use their government-provided benefits to achieve a public purpose, the Congress gave their regulators mission regulatory authority. GAO found that the relationship between GSEs nonmortgage investments and their mission goals is not always clear. GAO suggested that the Congress may wish to more closely monitor the agencies that oversee GSEs to ensure that corporate incentives to increase shareholder value do not erode the enterprises' public mission. (GGD-98-48)

MILITARY READINESS: Reports to Congress Provide Few Details on Deficiencies and Solutions

The Department of Defense's quarterly reports to the Congress on readiness of U.S. military forces provide only vague descriptions of readiness problems and remedial action. Lacking the necessary detail, the reports are ineffective as an oversight tool for the Congress. GAO recommends that future quarterly readiness reports contain supporting data on key readiness deficiencies and specific information on planned remedial actions. (NSIAD-98-68)

FEDERAL POWER: OPTIONS FOR SELECTED POWER MARKETING ADMINISTRATIONS' ROLE IN A CHANGING ELECTRICITY INDUSTRY

There are three general options to address the federal role in a changing electricity industry. The first option, maintaining the status quo, perpetuates the net costs to the federal government, which were \$1.5 billion for fiscal years 1992 through 1996. A second option would be to maintain the current ownership structure while improving how federal assets are managed and operated. The third option would be to sell or divest the power marketing administrations and federal hydropower assets; however, depending on the sale's terms and the price obtained, a divestiture may not fully recover the government's investment. (RCED-98-43)

F-22 AIRCRAFT: PROGRESS IN ACHIEVING ENGINEERING AND MANUFACTURING DEVELOPMENT GOALS

In this report, GAO reviews the Air Force's progress in achieving cost, schedule, and performance goals for the F-22 fighter. Schedule delays in engineering and manufacturing development, including problems in delivering the aircraft's wings and fuselage, have prompted the Air Force to reassess the program's estimated cost and planned schedule. In addition, testing delays have limited the amount of performance information available to support Air Force plans to begin production in 1999. (NSIAD-98-67)



PRIL

1998

SOCIAL SECURITY FINANCING: IMPLICATIONS OF GOVERNMENT STOCK INVESTING FOR THE TRUST FUND, THE FEDERAL BUDGET, AND THE ECONOMY

For the Social Security trust fund, government stock investing offers the prospect of higher returns but greater risk. For the federal budget, stock investing would have the immediate effect of decreasing the surplus or increasing any deficit, because, under current budget scoring rules, stock purchases would be treated as outlays. Stock investing would not significantly affect the economy and would have no appreciable effect on future national income. (AIMD/HEHS-98-74)

FOOD SAFETY: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable

Federal agencies cannot ensure that the growing volume of imported food is safe for consumers. The Food Safety and Inspection Service, responsible for meat and poultry, places the principal burden for safety on the exporting countries and only allows imports from countries with food safety systems equivalent to the U.S. system. The Food and Drug Administration, responsible for all other foods, inspects foods when they arrive at U.S. ports of entry. In this report, GAO recommended that the Congress require that all imported foods be produced under equivalent food safety systems. (RCED-98-103)

TELECOMMUNICATIONS: TELEPHONE SLAMMING AND ITS HARMFUL EFFECTS

Testimony of Eijay B. Bowron, Assistant Comptroller General. Office of Special Investigations

Slamming is the switching of a customer from one long-distance provider to another without the consumer's knowledge and consent. The Federal Communications Commission (FCC), the states, and the telecommunications industry are not sufficiently protecting consumers from telephone slamming. Because of lack of FCC diligence, an unscrupulous company can easily file a tariff or application with FCC to provide long-distance service and slam consumers with impunity. In addition to consumers, long-distance carriers are victims of slamming because this fraud increases industry costs. (T-OSI-98-11)

AIM-9X ACQUISITION: MISSILE RISK REDUCTION UNDERWAY BUT SYSTEM PRODUCTION PLANS NEED TO BE REEXAMINED

The Navy and the Air Force are jointly developing the AIM-9X short-range air-to-air missile. In this report, GAO expresses concern that low-rate initial production is planned to start before decisionmakers have enough verifiable information to make an informed production decision. GAO recommends revisions to the AIM-9X acquisition strategy to allow enough testing to demonstrate that the AIM-9X can meet its minimum performance requirements before production begins. (NSIAD-98-45)

YEAR 2000 COMPUTING CRISIS: POTENTIAL FOR WIDESPREAD DISRUPTION CALLS FOR STRONG LEADERSHIP AND PARTNERSHIPS

There is a high risk that critical services provided by the government and the private sector could be severely disrupted by the Year 2000 computing crisis. Financial transactions could be delayed, flights grounded, power lost, and national defense affected. The many interdependencies that exist among governments and within key economic sectors could cause a single failure to have adverse repercussions. While the government and the private sector work to mitigate these risks, much work remains to be done and time is running out. (AIMD-98-85)

VA HOSPITALS: Issues and Challenges for the Future

This report discusses major issues and challenges that the Congress and the administration will face in the next few years regarding Department of Veterans Affairs (VA) hospitals. The report examines how VA and community hospitals' care evolved during the twentieth century, including changes in supply and demand, factors contributing to the declining demands, the extent of excess capacity, and actions taken to increase efficiency and compete for patients. (HEHS-98-32)

DEPARTMENT OF ENERGY: Problems and Progress in Managing Plutonium

There are environmental, safety, and health problems at the Department of Energy's nuclear weapons facilities, including problems with how its plutonium is packaged and stored. Although the Department has made some progress in stabilizing its plutonium, it is not likely to have its plutonium metals and oxides stabilized and packaged for long-term storage by a year 2002 target date. In addition, the Department is storing approximately 10,000 pits in containers believed to be unsuitable for extended storage, risking workers' exposure to plutonium. One recommendation that GAO makes is that the Department resolve safety concerns about extended storage of pits. (RCED-98-68)

DEPARTMENT OF DEFENSE: FINANCIAL AUDITS HIGHLIGHT CONTINUING CHALLENGES TO CORRECT SERIOUS FINANCIAL MANAGEMENT PROBLEMS

Testimony of Gene L. Dodam, Assistant Comptroller General, Accounting and Information Management Division

The most recent Department of Defense (DoD) financial statement audits identified deficiencies across virtually the entire spectrum of its operations that resulted in wasted resources and undermined DoD's ability to manage an estimated \$1 trillion in assets and about 48 percent of total discretionary spending of the entire federal government. The sustained, demonstrated commitment of the Department's top leaders, enhancing the skills of DoD's financial personnel, and successfully integrating its financial management systems will be key to resolving the Department's financial management deficiencies. (T-AIMD/NSIAD-98-158)

HOUSING FINANCE: FHA'S RISK-SHARING PROGRAMS OFFER ALTERNATIVES FOR FINANCING AFFORDABLE MULTIFAMILY HOUSING

The goals of two Housing and Urban Development (HUD) risk-sharing demonstration programs—the credit enhancement program and the reinsurance program—are to offer incentives to facilitate the financing of affordable multifamily housing. The credit enhancement program is meeting its goal; activities in the reinsurance program have been so limited that the program remains largely untested. These risk-sharing programs have successfully limited HUD's loss exposure. In this report, GAO reviews how well the programs are meeting their goals, identifies the benefits for participating financial institutions and HUD, and suggests ways to improve the programs and their administration. (RCED-98-117)

VA HEALTH CARE: CLOSING A CHICAGO HOSPITAL WOULD SAVE MILLIONS AND ENHANCE ACCESS TO SERVICES

The Department of Veterans Affairs (VA) can meet the health care needs of Chicago-area veterans by operating three hospitals instead of four. Closing a hospital would save roughly \$200 million over the next 10 years. Demand for VA hospital care is expected to continue declining as the Chicago-area veteran population continues to decrease. Chicago's public and private hospitals have excess capacity and, if needed, VA could contract with them to meet veterans' inpatient needs, as VA does elsewhere. (HEHS-98-64)

MEDICAL READINESS: EFFORTS ARE UNDERWAY FOR DOD TRAINING IN CIVILIAN TRAUMA CENTERS

Military medical personnel, including physicians, nurses, and corpsmen, have almost no chance during peacetime to practice their battlefield trauma care skills. Because of concerns about the military's ability to meet its wartime medical mission, the Department of Defense has implemented a demonstration program allowing surgeons to train at a civilian trauma center, the Eastern Virginia Medical School. (NSIAD-98-75)

CROP REVENUE INSURANCE: PROBLEMS WITH NEW PLANS NEED TO BE ADDRESSED

The premium structures for crop revenue insurance policies need to be set in a manner that will be appropriate to the risk each farmer presents and will protect the government from undue exposure to loss. GAO's analysis indicated that the premium structures for the three revenue crop insurance plans—Crop Revenue Coverage, Revenue Assurance, and Income Protection—have weaknesses in their underlying assumptions and methods that could result in their being actuarially unsound. GAO recommends that the methods and data used to set premiums be reevaluated to ensure that they are based on an actuarially sound foundation. (RCED-98-111)



1998

INTERCITY PASSENGER RAIL: FINANCIAL PERFORMANCE OF AMTRAK'S ROUTES

Since it began operations in 1971, Amtrak has never been profitable. It spends almost \$2 for every dollar of revenue it earns. Only the Metroliner's high-speed service between Washington, D.C., and New York City is profitable; all of Amtrak's other 39 routes operate at a loss. Fourteen routes lost more than \$100 per passenger in fiscal year 1997. Decisions about restructuring Amtrak's routes will need to consider many issues, including whether and how Amtrak will continue to provide national passenger service. (RCED-98-151)

DECENNIAL CENSUS: Overview of Historical Census Issues

This report gives context, background, historical perspective on policy, and operational questions related to the 2000 census. It is organized by general decennial census concepts and discusses critical issues that emerged during decennial censuses as far back as the first one in 1790. There are short answers to frequently asked questions about the decennial census, as well as a snapshot of the growth and cost of census-taking since the first census in 1790. (GGD-98-103)

EXECUTIVE GUIDE: Information Security Management—Learning From Leading Organizations

GAO studied the management practices of eight leading nonfederal organizations recognized as having superior information security programs. Although the nature of their operations differed, the organizations all had embraced risk management principles. The single most important factor prompting the establishment of an effective security program was a recognition and understanding among the organizations' most senior executives of the enormous risks to business operations associated with relying on automated and highly interconnected systems. (AIMD-98-68)

FOREST SERVICE: WEAK CONTRACTING PRACTICES INCREASE VULNERABILITY TO FRAUD, WASTE, AND ABUSE

The Forest Service is highly vulnerable to fraud, waste, and abuse because it does not have an effective system of internal control for its contracting activities. The Forest Service has the largest contracting activity at the Department of Agriculture, accounting for about 43 percent of the Department's contracting dollars (excluding commodity purchases). It has not established an effective internal control system and is not implementing management techniques that could improve contracting operations. GAO recommended that there are opportunities to enhance effectiveness and reduce contracting costs by adopting best management practices. (RCED-98-88)

AIR TRAFFIC CONTROL: WEAK COMPUTER SECURITY PRACTICES JEOPARDIZE FLIGHT SAFETY

GAO reviewed the security of the Federal Aviation Administration's (FAA) air traffic control (ATC) computer systems and found it ineffective in critical areas. In the area of physical security, GAO found weaknesses that gave unauthorized personnel unescorted access to restricted areas. Physical security is the agency's first line of defense against terrorist attack, and FAA's failure to address security weaknesses puts the safety of the flying public at risk. In addition, FAA is planning new ATC modernization systems but is doing so without adequately defining its security requirements. (AIMD-98-155)

REGULATORY REFORM: Agencies Could Improve Development, Documentation, and Clarity of Regulatory Economic Analyses

This report discusses the extent to which federal agencies are incorporating the best practices set forth in the Office of Management and Budget's guidance for preparing economic analyses in accordance with Executive Order 12866 and the Unfunded Mandates Reform Act of 1995. GAO reviewed the economic analyses used by 5 agencies in promulgating 20 regulations. It recommended that executive summaries for economic analyses be included to enhance their clarity and peer reviews be used to enhance their quality and credibility. (RCED-98-142)



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1998

PRIVATE HEALTH INSURANCE: DECLINING EMPLOYER COVERAGE MAY AFFECT ACCESS FOR 55- TO 64-YEAR-OLDS

This report examines the access of near-elderly Americans, aged 55 to 64, to health benefits through private insurance—either employer-based or individually purchased. Specifically, the report discusses the near-elderly's health, employment, income, and health insurance status; ability to obtain employer-based health insurance if they retire before becoming eligible for Medicare; and use of and costs associated with purchasing coverage through the individual market or employer-based continuation insurance. (HEHS-98-133)

BOSNIA PEACE OPERATION: PACE OF IMPLEMENTING DAYTON ACCELERATED AS INTERNATIONAL INVOLVEMENT INCREASED

Starting in mid-1997 the international community took actions to hasten progress toward reaching the Dayton Agreement's objectives, from arresting war criminals, to creating a democratic environment, to rebuilding economic institutions. However, the intransigence of Bosnia's political leaders continues to make the goal of a self-sustaining peace process elusive. Almost all of the results were achieved only with intensive international involvement and pressure, and a substantial NATO-led force is still needed. (NSIAD-98-138)

WELFARE REFORM: STATES ARE RESTRUCTURING PROGRAMS TO REDUCE WELFARE DEPENDENCE

States are moving to welfare systems that emphasize finding employment as quickly as possible and becoming more self-sufficient. Welfare offices are being transformed into job placement centers and, to reinforce the expectation that welfare is temporary, states are establishing time limits on receiving cash assistance. While the results are promising, it is too early to draw definitive conclusions. (HEHS-98-109)

AVIATION COMPETITION: Proposed Domestic Airline Alliances Raise Serious Issues

Testimony of John H. Anderson, Jr., Director, Transportation Issues, Resources, Community, and Economic Development Division

Policymakers will need to address several key issues to determine if proposed domestic airline alliances benefit the traveling public. One issue is whether assumptions concerning the additional traffic generated by the alliances are realistic. Second, it will be critical to determine if an alliance retains or reduces incentives for its partners to compete on price. Another issue is whether the alliances may exacerbate or ameliorate fare and service problems being reported by business travelers and small- and medium-sized communities. (T-RCED-98-215)

AIR FORCE SUPPLY MANAGEMENT: ANALYSIS OF ACTIVITY GROUP'S FINANCIAL REPORTS, PRICES, AND CASH MANAGEMENT

The Air Force supply management activity group provides about two million types of inventory items, ranging from weapon system spare parts to fuels and medical-dental supplies, primarily to Department of Defense customers. It had \$24.5 billion in inventory at the end of fiscal year 1997 and about \$12 billion in revenue from the sale of goods during fiscal year 1997. This report identifies and makes recommendations to address long-standing financial reporting problems and problems in inventory pricing and cash management. (AIMD/NSIAD-98-118)

SCHOOL FINANCE: STATE EFFORTS TO EQUALIZE FUNDING BETWEEN WEALTHY AND POOR SCHOOL DISTRICTS

GAO found that two key factors can help reduce the size of the funding gap between poor and wealthy school districts: (1) the extent to which a state's poor districts make a greater tax effort and (2) a state's efforts to compensate for differences in district wealth through its equalization policies. GAO's research shows that poor districts in most states made a greater tax effort. To reduce disparities in education spending, most states would have to fund a larger portion of local education expenses, target more money to poor districts, or both. (HEHS-98-92)

U.S. POSTAL SERVICE: COMPETITIVE CONCERNS ABOUT GLOBAL PACKAGE LINK SERVICE

Private express carriers are concerned that differences in customs clearance requirements for postal and privately shipped parcels result in more work and higher costs for the carriers, placing them at a competitive disadvantage with the U.S. Postal Service's international parcel delivery service, Global Package Link. The Postal Service disagrees, pointing out that it incurs costs that private carriers do not, such as providing delivery service to all communities of the United States and countries of the Universal Postal Union. (GGD-98-104)

EXPORT CONTROLS: Issues Related to Commercial Communications Satellites

Testimony of Katherine V. Schinasi, Associate Director, Defense Acquisitions Issues, National Security and International Affairs Division

Regardless of whether the Department of Commerce or the Department of State grants export licenses for communications satellites, there is certain risk involved. Commerce's system gives greater weight to economic and commercial concerns. State's system gives primacy to national security and foreign policy concerns, lessening—but not eliminating—the risk of damage to U.S. national security interests. (T-NSIAD-98-208)

FINES AND RESTITUTION: IMPROVEMENT NEEDED IN HOW OFFENDERS' PAYMENT SCHEDULES ARE DETERMINED

Because they do not have specific policy guidance on how payment schedules for court-ordered fines and restitution should be determined, probation officers often create their own arbitrary methods for determining how much offenders should pay each month. In its review, GAO found that the arbitrary methods used by probation officers to establish the payment schedules were not linked to current income, expenses, or other financial criteria and recommended that current financial information be provided to probation officers on a regular, timely basis. (GGD-98-89)

FINANCIAL MANAGEMENT: TRAINING OF DOD FINANCIAL MANAGERS COULD BE ENHANCED

The Department of Defense (DoD) will need a well-trained, experienced, and innovative cadre of financial managers to address its decades-old legacy of deeply entrenched, serious financial weaknesses. The Secretary of Defense has recognized the importance of training for civilian personnel across all professional disciplines, and initiatives are underway to enhance financial management training. DoD needs to ensure that efforts to improve its financial managers' training are effectively coordinated with the Secretary's broader training reform initiatives. (AIMD-98-126)

DEFENSE HEALTH CARE: FULLY INTEGRATED PHARMACY SYSTEM WOULD IMPROVE SERVICE AND COST-EFFECTIVENESS

The significant problems the Department of Defense is experiencing delivering its pharmacy benefit result largely from the way it manages its \$1.3 billion pharmacy programs. Although Defense has begun to take steps to improve pharmacy management, GAO believes it needs a top-to-bottom redesign that involves the programs' major stakeholders. Unless Defense commits to managing pharmacy programs as an integrated system, its pharmacy problems will continue and likely worsen in the future. (HEHS-98-176)

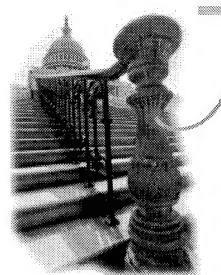
QUADRENNIAL DEFENSE REVIEW: OPPORTUNITIES TO IMPROVE THE NEXT REVIEW

GAO suggests that the Department of Defense (DoD) could provide a more thorough review of U.S. defense needs in the next quadrennial defense review (QDR) by preparing early, improving its analytical tools, and making changes to the QDR's structure and design. If the Congress establishes another panel of experts to provide it an independent review of defense needs, it should do so in time to provide DoD a broader set of options to examine. (NSIAD-98-155)

SPACE STATION: U.S. LIFE-CYCLE FUNDING REQUIREMENTS

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The estimated U.S. cost to develop, assemble, and operate the space station has increased to almost \$96 billion. The adequacy of program reserves to deal with changing program needs is a continuing concern. Over 3 years ago, the space station program had more than \$3 billion in financial reserves to cover development contingencies. In March 1998, with almost 6 years until completion, the net unencumbered financial reserves were down to about \$1 billion. (T-NSIAD-98-212)



ULY

1998

CALIFORNIA NURSING HOMES: CARE PROBLEMS PERSIST DESPITE FEDERAL AND STATE OVERSIGHT

California has more than 1,400 nursing homes, with over 141,000 resident beds. The Medicare and Medicaid programs paid these homes approximately \$2 billion in 1997. Despite federal and state oversight, certain California nursing homes are not sufficiently monitored to guarantee the safety and welfare of their residents. Nearly one in three California nursing homes was cited by state investigators for having serious or potentially lifethreatening care problems. In this report, GAO makes recommendations to better protect the health, safety, welfare, and rights of nursing home residents. (HEHS-98-202)

NUCLEAR NONPROLIFERATION: UNCERTAINTIES WITH IMPLEMENTING IAEA'S STRENGTHENED SAFEGUARDS SYSTEM

Although the International Atomic Energy Agency (IAEA) plans to use stepped-up inspection and improved data collection to better detect clandestine nuclear weapons programs, such as those in Iraq, it lacks a long-term plan to implement these efforts. IAEA expects that implementing the new measures will be costly and plans to offset costs with future savings from greater efficiencies. Because its charter limits IAEA's budget to zero-real growth, if budget savings are not realized, it may be forced to seek added U.S. financial support to pay for strengthened safeguard efforts. (NSIAD/RCED-98-184)

MEDICARE: CONCERNS WITH PHYSICIANS AT TEACHING HOSPITALS (PATH) AUDITS

The method of paying teaching physicians for their services creates the potential for Medicare to pay for some services twice. Federal law has long required that teaching physicians billing Medicare either provide the service themselves or be physically present while a physician in training or a hospital resident performs the service. Although PATH audits conducted by the Department of Health and Human Services Inspector General were legal, GAO suggests that the audit plan was not sufficiently risk based, resulting in an inefficient use of hospital and government resources. (HEHS-98-174)

AUTOMATED TELLER MACHINES: SURVEY RESULTS INDICATE BANKS' SURCHARGE FEES HAVE INCREASED

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GAO's survey of 500 randomly selected banks found that approximately 70 percent of banks in the United States operate automated teller machines (ATM). During a 1-year period, the number of ATMs that banks operated increased about 13 percent, to an estimated 132,000. About 66 percent of this growth was in ATMs located off bank premises. The percentage of banks operating ATMs that assessed surcharges increased from 39 percent to 64 percent. The average surcharge fee increased from \$0.69 to \$1.00; the most typical fee was \$1.50, compared to \$1.00 the previous year. (T-GGD-98-171)

INFORMATION TECHNOLOGY: DEPARTMENT OF ENERGY DOES NOT EFFECTIVELY MANAGE ITS SUPERCOMPUTERS

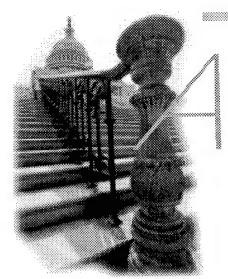
The Department of Energy has not effectively overseen the acquisition and use of supercomputers. No office within the Department knows at a given time how many supercomputers there are, what they cost, or how they are being utilized. The seven national laboratories are using less than 60 percent of the available supercomputing capacity. The chief information officer does not oversee the acquisition or use of supercomputers and new ones are acquired with little departmental oversight. In this report, GAO recommends that the Department adopt a Clinger-Cohen approach for acquiring its supercomputers. (RCED-98-208)

MILITARY HOUSING: PRIVATIZATION OFF TO A SLOW START AND CONTINUED MANAGEMENT ATTENTION NEEDED

Implementation of the Military Housing Privatization Initiative is off to a slow start and may not result in significant cost savings. Progress has been slow because the initiative represents a new way of doing business for both the military and the private sector. For example, legal, financial, and contractual issues need to be resolved to the satisfaction of the government, developers, and private lenders. To meet the challenge of providing quality yet economical military housing, GAO recommends that the Department of Defense better integrate this privatization initiative with traditional elements of its housing program. (NSIAD-98-178)

SOCIAL SECURITY: DIFFERENT APPROACHES FOR ADDRESSING PROGRAM SOLVENCY

The need to ensure long-term solvency drives the current Social Security debate. Options exist to restore solvency within the current program structure, including raising the retirement age, altering the benefit formula, reducing the cost-of-living adjustment, investing trust fund surpluses in the stock market, and mandating participation of workers who currently do not participate. Restoring the system to financial solvency will require fundamental choices about such issues as the strength of guarantees of retirement income to the nation's elderly, levels of insurance for working families, and the role of the government in providing retirement income. (HEHS-98-33)



UGUST

1998

NAVY AIRCRAFT CARRIERS: COST-EFFECTIVENESS OF CONVENTIONALLY AND NUCLEAR-POWERED CARRIERS

GAO's analysis shows that conventional and nuclear-powered carriers both have effectively met U.S. national security requirements. The analysis also shows that a nuclear-powered carrier costs about 58 percent more than a conventional carrier over its life cycle due to higher building, operations, maintenance, and disposal costs. This report also discusses the implications of a changing carrier force structure on providing overseas presence for the Pacific region. (NSIAD-98-1)

CURRENCY PAPER PROCUREMENT: MEANINGFUL COMPETITION UNLIKELY UNDER CURRENT CONDITIONS

For the last 119 years, the Bureau of Engraving and Printing has bought virtually all of its distinctive currency paper from Crane & Co., Inc. U.S. reliance on a single source for currency paper is not unique; many other nations also rely on a single domestic supplier for their banknote paper. The optimum circumstances for the procurement of distinctive currency paper would include an active, competitive market. However, there are statutory restrictions that require, among other things, that currency paper be manufactured in the United States. In this report, GAO suggests legislative changes concerning the procurement of currency paper that would help encourage competition. (GGD-98-181)

WELFARE REFORM: EARLY FISCAL EFFECTS OF THE TANF BLOCK GRANT

The Temporary Assistance for Needy Families (TANF) block grant replaced the Aid to Families with Dependent Children program and represents a federal entitlement to states of \$16.5 billion annually. Under TANF, states have the flexibility to design their own programs for promoting work over welfare and self-sufficiency over dependency. As a trade-off for the increased flexibility, TANF shifts fiscal risks to states. While states are currently doing well under this new system, if welfare costs rise, states will be responsible for most of the financial burden. (AIMD-98-137)

CHILD LABOR IN AGRICULTURE: CHANGES NEEDED TO BETTER PROTECT HEALTH AND EDUCATIONAL OPPORTUNITIES

Although basic, reliable data on the number of children working in agriculture, their duties, and the consequences for their health and safety are limited, available data indicate that these children tend to be at greater risk of serious injury and death than those employed in other industries. Children in migrant and seasonal agriculture are at considerable risk of academic failure because of poverty, limited English ability, and rural and social isolation. In this report, GAO suggests that the Congress reevaluate whether current law adequately protects children working in agriculture. (HEHS-98-193)

HIGH-LOAN-TO-VALUE LENDING: INFORMATION ON LOANS EXCEEDING HOME VALUE

Since 1995, a segment of the financial services industry has offered loans that are tied to the value of a borrower's house but that, in combination with preexisting first mortgages, exceed this value. The volume of high-loan-to-value (HLTV) loans grew to about \$8 billion in 1997. A dominant lender's HLTV loans averaged about \$30,000 with an interest rate of about 14 percent and a loan term of 25 years. Borrowers have benefited by using the loans to consolidate credit card debt. Lenders have benefited from the high rate of return, but it is uncertain how these loans will perform during any future economic downturn. (GGD-98-169)



EPTEMBER

1998

BLOOD PLASMA SAFETY: PLASMA PRODUCT RISKS AND MANUFACTURERS' COMPLIANCE

Testimony of Bernice Steinhardt, Director, Health Services Quality and Public Health Issues, Health, Education and Human Services Division

About one million people in the United States receive products manufactured from human plasma each year. Approximately 370 plasma collection centers collect about 11 million liters of plasma from 1.5 million paid donors. An additional 1.8 million liters of plasma are collected from approximately 8 million volunteer donors. The risk of receiving an infected plasma product is extremely low when manufacturers follow all the procedures in place to ensure safety. Recent initiatives by the paid plasma industry have greatly reduced the chances of infected units being included in the plasma production pool. (T-HEHS-98-242)

INFORMATION SECURITY: SERIOUS WEAKNESSES PLACE CRITICAL FEDERAL OPERATIONS AND ASSETS AT RISK

Federal agencies are not adequately protecting the automated systems and electronic data that support critical federal operations, such as national defense, tax collections, benefits payment, and law enforcement. As a result, there are increased risks of fraud, inappropriate disclosure of sensitive data, and disruption of essential services. GAO summarized the results of recent federal agency computer security audits and made recommendations for better coordinating improvement efforts underway. (AIMD-98-92)

FEDERAL HOUSING FINANCE BOARD: ACTIONS

NEEDED TO IMPROVE REGULATORY OVERSIGHT

Testimony of Nancy R. Kingsbury, Assistant Comptroller General, General Government Division :

The Federal Housing Finance Board (FHFB) is the regulator of the Federal Home Loan Bank System (System). GAO identified weaknesses in FHFB's examination, off-site monitoring, and enforcement programs that raised concerns about FHFB's regulatory effectiveness. GAO also found that some of FHFB's activities to promote the System could complicate its regulatory role and prompt questions about its objectivity. GAO recommended ways that FHFB can strengthen its oversight of the System and continued its support for a single regulator for housing government-sponsored enterprises. (T-GGD-98-185)

EXPORT CONTROLS: Changes in Controls Applied to the Export of High Performance Computers

Testimony of Harold J. Johnson, Associate Director, International Relations and Trade Issues, National Security and International Affairs Division

The president has the authority to control and require licenses for the export of items, such as U.S.-manufactured high performance computers (HPC), to countries of national security concern, such as China and Russia. In 1996, controls on the exports of HPCs were relaxed. In GAO's view, this decision was based on the findings of a study with serious limitations and recommends that the Secretary of Defense assess the national security threat of exporting HPCs to countries of proliferation concern. (T-NSIAD-98-250)

NATIONAL AIRSPACE SYSTEM: FAA HAS IMPLEMENTED SOME FREE FLIGHT INITIATIVES, BUT CHALLENGES REMAIN

Free flight is a new system of air traffic management that will provide controllers and pilots with new technologies and procedures to increase the safety, capacity, and efficiency of air traffic operations. This report discusses the status of the Federal Aviation Administration's (FAA) efforts to implement free flight and the views of the aviation community and FAA on the challenges that must be met to implement free flight in a cost-effective manner. (RCED-98-246)

MEDICARE COMPUTER SYSTEMS: YEAR 2000 CHALLENGES PUT BENEFITS AND SERVICES IN JEOPARDY

The Health Care Financing Administration (HCFA) and its contractors are severely behind schedule in repairing, testing, and implementing the mission-critical systems supporting Medicare, and it is highly unlikely that HCFA can ensure the delivery of uninterrupted Medicare benefits and services into the year 2000. In this report, GAO urges HCFA to have a Medicare-wide business continuity and contingency plan in place that can be implemented should systems failures occur. (AIMD-98-284)

SUPPLEMENTAL SECURITY INCOME: ACTION NEEDED ON LONG-STANDING PROBLEMS AFFECTING PROGRAM INTEGRITY

The Supplemental Security Income (SSI) program is the nation's largest cash assistance program for the poor. Between 1974 and 1996, federal benefit payments rose 565 percent to more than \$25 billion. GAO attributes problems in the SSI program to two underlying causes: an organizational culture that places a greater priority on processing and paying claims than on controlling program expenditures and a management approach that reacts to, rather than leads in, policy development, resulting in missed opportunities to address critical SSI policy issues. (HEHS-98-158)

MILITARY ATTRITION: BETTER DATA, COUPLED WITH POLICY CHANGES, COULD HELP THE SERVICES REDUCE EARLY SEPARATIONS

To reduce attrition, a critical step is for the Department of Defense to obtain better data on why enlistees are leaving. Defense should use the data it collects from surveys on the quality of military life. Learning why enlistees are leaving is key to crafting polices that will retain them. The practice of granting honorable discharges to enlistees who deliberately seek ways out of fulfilling their service commitments should be stopped as it simply encourages others to do likewise. (NSIAD-98-213)

THE RESULTS ACT: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999

The issuance of the first governmentwide performance plan was an important step in an evolving results-based planning and budgeting process. The plan was issued as part of the President's fiscal year 1999 budget submission and included management objectives and key performance goals. GAO made four recommendations to improve future performance plans, one of which is to present baseline and trend information in a more consistent manner. (AIMD/GGD-98-159)

MANAGING FOR RESULTS: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans

The Office of Management and Budget and federal agencies could improve the usefulness of government performance plans to enhance congressional and executive branch decisionmaking. Elements of an improvement effort include better articulating a results orientation, coordinating crosscutting programs, clearly showing how strategies will be used to achieve goals, showing performance consequences of budget decisions, and building capacity within agencies to gather and use performance information. (GGD/AIMD-98-228)

MEDICARE HOME HEALTH BENEFIT: IMPACT OF INTERIM PAYMENT SYSTEM AND AGENCY CLOSURES ON ACCESS TO SERVICES

Home health agency closures have increased markedly since Medicare implemented mandated payment changes, but GAO's work found that Medicare beneficiaries continue to have access to these services. Dramatic growth in Medicare-participating agencies in recent years more than offset agency closures since the payment changes. Preliminary indications are that the willingness and ability of home health agencies to serve Medicare beneficiaries have not declined, although it is harder to find home health care for beneficiaries who are likelier to be more expensive to treat than the average. (HEHS-98-238)



VERVIEW OPERATIONS AND FINANCIAL MANAGEMENT

This overview includes

- a description of GAO's core values;
- a discussion of GAO's performance measures;
- a summary of quality control efforts and a description of GAO's external Audit Advisory Committee;
- management's assessment of internal controls, financial systems, and Year 2000 readiness issues; and
- a description of the scope of the audit of GAO's 1998 principal statements.

Immediately following the overview are GAO's principal statements for fiscal years 1998 and 1997, the report of the Audit Advisory Committee, and the independent auditor's report.

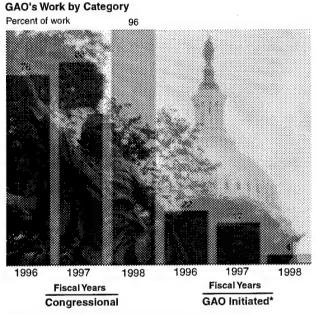
GAO'S CORE VALUES

The General Accounting Office is dedicated to good government through its commitment to the core values of accountability, integrity, and reliability.

Accountability describes the nature of GAO's work. GAO helps the Congress oversee federal programs and operations to assure accountability to the American people. GAO's evaluators, auditors, lawyers, economists, public policy analysts, information technology specialists, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American public. GAO accomplishes its mission through a variety of activities that include financial audits, program reviews, investigations, legal support, and policy/program analyses.

Integrity describes the high standards that GAO sets for itself in the conduct of its work. GAO takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all of its activities. Integrity is the foundation of reputation, and GAO's approach to its work assures both.

Reliability describes GAO's goal for how its work is viewed by the Congress and the American public. GAO produces high-quality reports, testimony, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.



*Note: Initiated under basic legislative responsibility.

As shown in the chart above, nearly all of GAO's work developing products was done at the specific request of the Congress. GAO is required to do work requested by committees and, to the extent possible, GAO responds to requests from individual members. GAO also undertakes selected assignments independently in accordance with its basic legislative responsibilities. Details on cost and staff days of GAO's evaluations, audits, and investigations for the past 3 fiscal years can be found in the Supplement to the Comptroller General's annual report.

GAO's audit work is managed through five divisions. The issues examined by GAO span the breadth of national concerns, including such issues as national security, international affairs, law enforcement, tax administration, health care financing, energy, the environment, aviation safety, financial services, education, employment, transportation, income security, housing, financial management, information technology, human capital strategies, and many others.

Overview of Operations and Financial Management

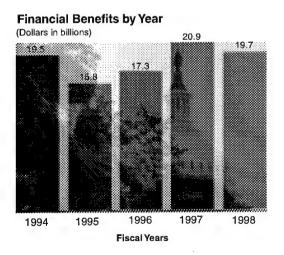
GAO's operational reviews provide insights into the management of the federal government and related programs, including recommendations for improvement. GAO's program and policy reviews provide facts, summarize options, and identify the various costs and benefits of current, emerging, and longer-range issues for consideration by the Congress.

While GAO's evaluations, audits, and investigations are the most visible aspects of its work and absorb the largest share of its resources, GAO has other important functions. GAO prescribes accounting standards for the entire federal government in conjunction with the Office of Management and Budget (OMB) and the Department of the Treasury, and it issues generally accepted auditing standards for all levels of government entities. GAO issues legal opinions on matters involving government programs and activities and decides protests against decisions made by agencies in connection with the award of government contracts.

GAO'S KEY PERFORMANCE MEASURES

GAO monitors performance with a view toward continually improving its efficiency and effectiveness. GAO's key performance measures reflect GAO's service to the Congress and the results of its work, as measured by financial benefits to the government, other improvements in government operations, the percentage of GAO recommendations implemented, the number of testimony statements delivered, overall product output, and the timeliness of its work. As demonstrated by these measures, 1998 was a productive and successful year for GAO.

FINANCIAL BENEFITS



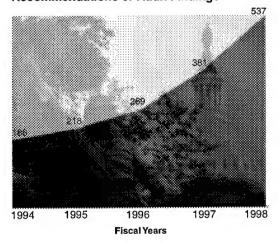
GAO's recommendations and audit findings directly or indirectly result in significant financial benefits to taxpayers. These include budget reductions, costs avoided, and revenue enhancements that are documented as either directly attributable to or significantly influenced by GAO's work. Although financial benefits fluctuate from year to year, GAO seeks to identify significant financial benefits annually. In fiscal year 1998, GAO's work contributed to legislative and executive actions that resulted in almost \$20 billion in measurable financial benefits. During the past 5 years, financial benefits totaled over \$93 billion, or nearly \$49 for every dollar appropriated for GAO's operations.

IMPROVEMENTS IN GOVERNMENT OPERATIONS AND SERVICES

Many of GAO's recommendations and audit findings result in or contribute to improvements in the efficiency, effectiveness, and economy of government operations and services, although their impact cannot always be quantified in monetary terms. GAO documents these improvements with two performance measures.

First, GAO monitors corrective actions taken and program improvements made in response to either a GAO recommendation or an audit finding. GAO documented 537 of these accomplishments in 1998. The accomplishments that result in financial benefits that GAO can quantify are excluded from the chart that follows because they are reflected in the financial benefits performance measure.

Actions Taken as a Result of GAO Recommendations or Audit Findings



Second, GAO follows up on its recommendations to determine whether they have been implemented. Although the time needed to implement GAO's recommendations depends on the passage of implementing legisla-

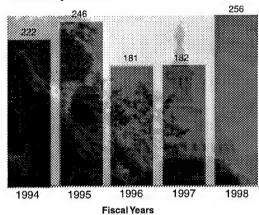
Overview of Operations and Financial Management

tion, the pace at which agencies take corrective action, and the scope of the corrective action recommended, if past experience is a good indication, about 70 percent of the key recommendations GAO made in 1998 will be implemented within 4 years.

CONGRESSIONAL TESTIMONY

Responding to congressional requests for testimony is one of GAO's most important services. Congressional requests for GAO's testimony are an indicator of the extent to which GAO's work adds value to the Congress and the legislative process. In supporting the Congress this year, $71\,\text{GAO}$ witnesses testified 256 times before $107\,\text{congressional}$ committees and subcommittees.

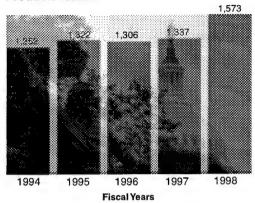
Testimony Delivered



PRODUCT OUTPUT

In fiscal year 1998, GAO produced 1,573 audit and evaluation products, including 1,136 reports to the Congress and agency officials, 181 formal congressional briefings, and 256 congressional testimony statements.

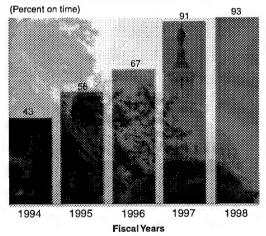
Products Issued



TIMELINESS OF GAO JOBS

GAO recognizes that for its products to be most useful, the products must be delivered on time. Timeliness is based on the dates on which GAO agreed to provide its products to the requestors. The chart below shows GAO's continued improvement in timeliness based on this measure.

Timeliness of All External Products



Overview of Operations and Financial Management

QUALITY AND INTERNAL CONTROL

Quality is the hallmark of GAO's work. To ensure that GAO maintains a high level of quality, management maintains a quality control program and seeks advice and evaluation from both internal and external sources.

Through an internal Quality Control Assessment Program, GAO ensures that its quality control policies and procedures are providing reasonable assurances that its audit and evaluation work conforms with the applicable professional requirements, including generally accepted government auditing standards.

AUDIT ADVISORY COMMITTEE

The Audit Advisory Committee discusses, reviews, and reports to the Comptroller General on the effectiveness of GAO's financial reporting and audit processes, internal controls over financial operations, and processes to ensure compliance with laws and regulations relevant to GAO's operations. The Committee consists of the following three distinguished individuals:

- SHELDON S. COHEN (Chairman) is a CPA and a practicing attorney in Washington, D.C.; former Commissioner and Chief Counsel of the Internal Revenue Service; and Senior Fellow of the National Academy of Public Administration.
- ALAN B. LEVENSON is a practicing attorney in Washington, D.C., and a former senior official at the Securities and Exchange Commission.
- KATHERINE D. ORTEGA is a CPA, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and former member of the President's Advisory Committee on Small and Minority Business.

Management Report on Internal Controls

GAO is committed to fulfilling the internal control objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Although GAO is not subject to FMFIA, it has voluntarily decided to comply with its requirements. GAO's internal control structure is designed to provide reasonable assurance that

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenues and expenditures applicable to GAO's operations are properly recorded and accounted for to enable GAO to prepare accounts and reliable financial reports and maintain accountability over its assets.

GAO management assesses compliance with its controls through a series of comprehensive internal reviews, applying the evaluation criteria in OMB's guidance (Circular A-123, Management Accountability and Control) for implementing FMFIA. The results of these reviews are discussed with GAO's Audit Advisory Committee, and action is taken promptly to correct deficiencies as they are identified.

GAO has assessed its internal control structure as of September 30, 1998, based on criteria mentioned above for effective internal controls in the federal government. On the basis of this assessment, GAO believes that it has an effective internal control structure in place as of September 30, 1998.

GAO's independent auditors have provided

an opinion on GAO's assertion on the internal control structure and a report citing any material conflicts between the GAO report on internal controls, dated December 11, 1998, and the results of their examination.

Overview of Operations and Financial Management

MANAGEMENT REPORT ON FINANCIAL SYSTEMS

GAO is committed to fulfilling the objectives of the Federal Financial Management Improvement Act (FFMIA) of 1996. Although not subject to FFMIA, GAO has voluntarily decided to comply with its requirements. GAO believes that it has implemented and maintained financial systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level as of September 30, 1998, and for the year then ended. GAO made this assessment based upon criteria established under FFMIA and guidance issued by OMB and included in Appendix D of OMB Bulletin 98-08, Audit Requirements for Federal Financial Statements.

Management Report on Year 2000 (Y2K) Readiness Issues

GAO assessed its operations and identified 66 supporting systems, 28 of which are "mission critical." As of December 31, 1998, GAO had completed 97 percent of the renovation—conversion, replacement, or retirement—phase of the full 66 systems and 75 percent of their testing and validation phase. GAO expects to complete the renovations and validations by March 31, 1999. Throughout the Y2K remediation project, GAO has attempted to satisfy that systems used by service centers providing services to GAO, such as the National Finance Center, are Y2K compliant by monitoring and participating in their tests.

However, even with thorough renovation and validation, GAO recognizes that the possibility of failure still exists. While GAO does not see this risk as great, it has begun business continuity and contingency planning. This is being done to protect the agency from failures of systems—water, electricity, telecommunication—beyond GAO's control. This contingency planning should mitigate the risk that system failures beyond GAO's control will prevent it from fulfilling its mission.

GAO has budgeted \$1.1 million for Y2K-related expenses, exclusive of related salary, benefit, and other direct costs. In fiscal years 1997 and 1998, \$533,000 was spent on renovation and testing, with an additional \$575,000 budgeted for fiscal year 1999.

GAO'S 1998 PRINCIPAL STATEMENTS

The accompanying principal statements summarize GAO's financial position, show the net cost of operations and the changes in net position during fiscal years 1998 and 1997, provide information on budgetary resources, and reconcile the difference between accrual-based financial accounting and obligation-based budgetary accounting. GAO's 1998 principal statements have been prepared in accordance with generally accepted federal accounting standards and OMB Bulletin 97-01, Form and Content of Agency Financial Statements, as amended. The provisions of this bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998.

The audit of the statements was performed by the independent auditor Clifton Gunderson L.L.C. The independent auditor's report on the principal statements, internal controls, and compliance with certain laws and regulations accompanies the principal statements.

Comptroller General of the United States

James F. Hinchman

Principal Assistant Comptroller General

Assistant Comptroller General for Operations



U.S. GENERAL ACCOUNTING OFFICE STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 1998 AND 1997

Dollars in Thousands	1998	1997
Assets		
Entity Assets		
Intragovernmental		
Funds with the U.S. Treasury	\$57,798	\$63,003
Accounts receivable	1,692	2,009
Accounts receivable	23	.28
Supplies	376	304
Property and equipment, net	64,611	68,261
Total entity assets	124,500	133,605
Total Assets	\$124,500	\$133,605
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts payable	\$1,458	\$3,381
Salaries and benefits	14,671	12,749
Employee travel	837	788
Accounts payable	9,767	10,463
Total liabilities covered by budgetary resources	26,733	27,381
Liabilities Not Covered by Budgetary Resources		
Accrued annual leave	26,029	25,308
Workers' compensation	10,236	11,685
Comptrollers General retirement plan	2,496	2,531
Capital leases	2,295	288
Total liabilities not covered by budgetary resources	41,056	39,812
Total Liabilities	\$67,789	\$67,193
Net Position		
	\$32,780	\$37,659
Unexpended appropriations	23,931	28,753
Cumulative results of operations	$\frac{25,931}{56,711}$	$\frac{26,733}{66,412}$
Total Net Position		
Total Liabilities and Net Position	\$124,500	\$133,605

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE STATEMENT OF NET COST FOR FISCAL YEARS ENDED SEPTEMBER 30, 1998 AND 1997

Dollars in Thousands	1998	1997
Net Costs by Program Area		
National Defense, Security and International		
Relations, and Other Related Issues	\$83,801	\$81,771
Less reimbursable services	_	(34)
Net program cost	83,801	81,737
Financial Audits, Systems, and Information		
Management and Technology Issues	84,156	85,010
Less reimbursable services	(1,803)	(3,102)
Net program cost	82,353	81,908
Energy, Agriculture, Environment, Housing,		
Transportation, and Natural Resources Issues	69,210	64,264
Less reimbursable services	(48)	(82)
Net program cost	69,162	64,182
Justice, Tax Policy, Financial Institutions, and		
General Management Issues	53,680	52,028
Less reimbursable services	(118)	(104)
Net program cost	53,562	51,924
Education and Employment, Health Care,		
and Income Security Issues	53,460	56,008
Less reimbursable services	(207)	(4)
Net program cost	53,253	56,004
Legal Services	23,381	22,825
Less reimbursable services		(15)
Net program cost	23,381	22,810
Special Investigations and Investigative Support	5,425	4,589
Less reimbursable services		
Net program cost	5,425	4,589
Senior management and staff	4,034	3,405
Less reimbursable services not attributable to programs	(380)	(1,589)
Net Cost of Operations	\$374,591	\$364,970

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE STATEMENT OF CHANGES IN NET POSITION FOR FISCAL YEARS ENDED SEPTEMBER 30, 1998 AND 1997

Dollars in Thousands	1998	1997
Net Cost of Operations	\$374,591	\$364,970
Financing Sources (other than reimbursable services)		
Appropriations used	349,359	340,670
Federal employee retirement benefit costs		
paid by OPM and imputed to GAO	20,188	22,032
Other costs imputed to GAO	237	178
Intragovernmental transfer of property and		
equipment	(15)	(97)
Total Financing Sources	369,769	362,783
Net Results of Operations	(4,822)	(2,187)
Net Decrease in Unexpended Appropriations	(4,879)	(1,371)
Change in Net Position	(9,701)	(3,558)
Net Position - Beginning of Fiscal Year	66,412	69,970
Net Position - End of Fiscal Year	\$56,711	\$66,412

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE STATEMENT OF BUDGETARY RESOURCES FOR FISCAL YEARS ENDED SEPTEMBER 30, 1998 AND 1997

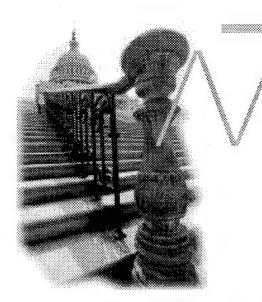
Dollars in Thousands	1998	1997	
Budgetary Resources Made Available			
Current year appropriations	\$339,499	\$332,520	
Transfers of budget authority, net	5,169	9,148	
Unobligated appropriations, beginning of fiscal year	r 15,87 4	11,964	
Reimbursable services	2,556	4,930	
Cost sharing and pass-through CPA contract			
reimbursements	9,438	9,914	
Total Budgetary Resources Made Available	\$372,536	\$368,476	
C. A. D. D.			
Status of Budgetary Resources	\$370,182	\$350,232	
Obligations incurred	2,166	15,874	
Unobligated appropriations, end of fiscal year	188	2,370	
Lapsed budget authority			
Total, Status of Budgetary Resources	\$372,536	\$368,476	
Outlays			
Obligations incurred	\$370,182	\$350,232	
Less: Reimbursable services	(2,556)	(4,930)	
Cost sharing and pass-through CPA	, ,		
contract reimbursements	(9,438)	(9,914)	
Obligated balance, net - beginning of fiscal year	47,129	53,598	
Less: Obligated balance, net - end of fiscal year	(55,632)	(47,129)	
Total Outlays	\$349,685	\$341,857	

The accompanying notes are an integral part of these statements.

U.S. GENERAL ACCOUNTING OFFICE
STATEMENT OF FINANCING
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1998 AND 1997

Dollars in Thousands	1998	1997
Obligations and Nonbudgetary Resources		
Obligations incurred	\$370,182	\$350,232
Less: Reimbursable services	(2,556)	(4,930)
Cost sharing and pass-through CPA contract		
reimbursements	(9,438)	(9,914)
Financing imputed from OPM for federal		
employee retirement benefit cost subsidies	20,188	22,032
Other imputed financing	237	178
Intragovernmental transfer of property and		
equipment	(15)	(97)
Total obligations as adjusted, and nonbudgetary		
resources	378,598	357,501
Resources That Do Not Fund Net Cost of Operations		
Net (increase) decrease in unliquidated obligations	(8,829)	5,281
Costs capitalized on the balance sheet	(8,357)	(12,251)
Expenses to be funded by future appropriations		
(Appropriations provided to reduce unfunded		
liabilities)	(763)	107
Total resources that do not fund net cost of		
operations	(17,949)	(6,863)
Costs That Do Not Require Resources		
Depreciation	13,942	14,332
Net Cost of Operations	\$374,591	\$364,970

The accompanying notes are an integral part of these statements.



OTES TO PRINCIPAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying principal statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the United States General Accounting Office (GAO), an agency of the legislative branch of the federal government. The financial activity presented relates primarily to the execution of GAO's congressionally approved budget. GAO's budget consists of an annual appropriation covering salaries and expenses and a building expenditure fund. The principal statements, except for federal employee retirement benefit costs paid by the Office of Personnel Management (OPM) and imputed to GAO, do not include the effects of centrally administered assets and liabilities related to the federal government as a whole, such as interest on the federal debt, which may in part be attributable to GAO; they also do not include activity related to GAO's trust function described in Note 10.

Basis of Accounting

Under the authority of the Chief Financial Officers Act of 1990, GAO participated with the Office of Management and Budget (OMB) and the Department of the Treasury in the establishment of the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, OMB, and Treasury. The Comptroller General, the Director of OMB, and

NOTES TO PRINCIPAL STATEMENTS

the Secretary of the Treasury (the three principals of FASAB) decide upon new principles, standards, and requirements after considering FASAB's recommendations. The resulting standards are concurrently issued by GAO and OMB. GAO prepared its principal statements based upon the following hierarchy of accounting principles and standards:

- the accounting principles, standards, and requirements approved by the three principals and issued by GAO and OMB;
- interpretations related to the standards issued by OMB in accordance with OMB Circular A-134, Financial Accounting Principles and Standards; and
- form and content requirements for financial statements included in OMB Bulletin 97-01 (Form and Content of Agency Financial Statements), as amended.

These principles differ from budgetary reporting principles. The differences relate principally to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities in the accompanying principal statements. Also, for purposes of the principal statements, budgetary appropriations are realized as a financing source when goods and services are received or benefits are provided.

Basis of Presentation

GAO's 1998 principal statements have been prepared in accordance with the requirements of federal accounting standards and OMB Bulletin 97-01, as amended. The provisions of this bulletin, which incorporates federal accounting standards recommended by FASAB and issued by GAO and OMB, are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998.

Funds With the U.S. Treasury

GAO's receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury represent appropriated funds available to pay current liabilities and to finance authorized purchase commitments.

Accounts Receivable

GAO's accounts receivable are due principally from federal government corporations and other federal agencies for audit and other reimbursable services.

Property and Equipment

On October 28, 1988, Public Law 100-545 transferred control of the GAO building and land in Washington, D.C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was \$15,664,000 and the book value of land was \$1,191,000. GAO recorded the building and the land as assets at the values stated above. The GAO building is listed in the National Register of Historic Places and has been designated as a heritage asset. Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the Statement of Financial Position (SOFP). GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements.

Property and equipment costing more than \$5,000 is capitalized at cost. Bulk purchases of lesser-value items that aggregate more than \$100,000 are also capitalized at cost. These assets are depreciated on a straight-line basis over the estimated useful life of the property, ranging from 2 to 20 years.

Liabilities

Liabilities represent the amounts that are likely to be paid by GAO as a result of transactions that have already occurred; however, no liability is paid by GAO absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as liabilities not covered by budgetary resources. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

Federal Employee Retirement Benefits

Statement of Federal Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, requires that GAO recognize its share of the cost of providing future pension benefits to eligible employees over the period of time that services are rendered. The pension expense recognized in the principal statements equals the current service cost for GAO's employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions, with the factors applied by GAO provided by OPM, the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by GAO represents the amount being financed directly through the Civil Service Retirement and

Notes to Principal Statements

Disability Fund administered by OPM. This amount is considered imputed financing to GAO.

The standard also requires that GAO recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. GAO accounted for and reported this expense in its principal statements in a manner similar to that used for pensions, with the exception that employees and GAO do not make current contributions to fund these future benefits.

Annual Leave, Sick and Other Leave

Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

Contingencies

GAO has certain claims and lawsuits pending against it. When claims are expected to result in payments, and the payment amounts can be reasonably estimated, appropriate provision is included in the accompanying principal statements. In the opinion of management and legal counsel, the resolution of other claims and lawsuits will not materially affect the financial position or operations of GAO.

Reclassifications

Certain amounts for 1997 have been reclassified to conform with the 1998 presentation of those amounts.

NOTE 2. PROPERTY AND EQUIPMENT, NET

The composition of property and equipment as of September 30, 1998, is as follows:

Dollars in Thousands			
Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building improvements	\$80,410	\$41,110	\$39,300
Computer and other equipment, and ADP software	54,741	32,166	22,575
Leasehold improvements	4,328	4,183	145
Assets under capital lease	4,630	2,039	2,591
Total Property and Equipment	\$144,109	\$79,498	\$64,611

The composition of property and equipment as of September 30, 1997, is as follows:

Dollars in Thousands			
Classes of Property and Equipment	Acquisition Value	Accumulated Depreciation	Net Book Value
Building improvements	\$75,416	\$34,738	\$40,678
Computer and other equipment, and ADP software	52,748	26,280	26,468
Leasehold improvements	4,384	4,074	310
Assets under capital lease	2,559	1,754	805
Total Property and Equipment	\$135,107	\$66,846	\$68,261

NOTE 3. NET POSITION

GAO's operations do not require permanent capital and are not expected to generate an operating surplus or deficit. Net Position is composed of two elements—unexpended appropriations and cumulative results of operations. Unexpended appropriations includes appropriations not yet obligated or expended, i.e., unobligated appropriations and unliquidated obligations. Unobligated appropriations were \$2,166,000 as of September 30, 1998, and \$15,874,000 as of September 30, 1997; unliquidated obligations were \$30,614,000 as of September 30, 1998, and \$21,785,000 as of September 30, 1997. Cumulative results of operations includes the amounts accumulated over the years by GAO from its financing sources less its expenses, including donations and transfers of capitalized assets and an amount representing GAO's liabilities not covered by budgetary resources. The former represents GAO's investment in capitalized assets, including supplies, net of capital lease liability.

Liabilities not covered by budgetary resources represent aggregate amounts of congressionally authorized long-term liabilities (annual leave, workers' compensation, and retirement benefits for Comptrollers General) that are expected to be funded by future years' appropriations.

NOTES TO PRINCIPAL STATEMENTS

NOTE 4. NET COST OF OPERATIONS

The Statement of Net Cost shows the full and net operating costs of GAO's major programs. Expenses for salaries and related benefits for fiscal years 1998 and 1997 amounted to \$276,085,000 and \$270,679,000, respectively. In fiscal years 1998 and 1997, salaries and related benefits were 74 percent of GAO's net cost of operations. Included in the net cost of operations are federal employee retirement benefit costs paid by OPM and imputed to GAO of \$20,188,000 in fiscal year 1998 and \$22,032,000 in fiscal year 1997. Revenues from reimbursable services earned by a program area are shown as an offset against the full cost of the program to arrive at its net cost. These revenues consist primarily of billings to federal government corporations for financial statement audits performed by GAO and to federal agencies for detailed GAO employees performing GAO missionrelated work. Earned revenues that are insignificant or cannot be associated with a major program area are shown in total. Revenues from reimbursable services for fiscal years 1998 and 1997 amounted to \$2,556,000 and \$4,930,000, respectively. The net cost of operations represents GAO's operating costs that must be funded by financing sources other than revenues earned from reimbursable services. These financing sources are presented in the Statement of Changes in Net Position.

NOTE 5. NET FINANCING SOURCES

GAO's financing sources, other than reimbursable services, consist of appropriations used and imputed financing, less transfers-out. Appropriations are considered used as a financing source when goods and services are received or benefits are provided. This is true whether the goods, services, and benefits are paid prior to the reporting date or are payable as of that date, and whether the appropriations are used for items that are recorded as expenses or are capitalized. Imputed financing is the offset to the federal employee retirement benefit costs paid by OPM and imputed to GAO that are reported on the Statement of Net Cost. Transfers-out represent the book value of capitalized assets transferred from GAO to other federal agencies without reimbursement.

NOTE 6. SPENDING AUTHORITY FROM BUDGET TRANSFERS AND REIMBURSEMENTS

Budgetary resources made available to GAO include spending authority from budget transfers and reimbursements arising from both revenues earned by GAO from providing services to other federal entities for a price (reimbursable services) and cost sharing and pass-through contract arrangements with other federal entities. Fiscal year 1998 budget transfers consisted primarily of budget authority transferred-in from the Federal Election Commission (FEC) for a GAO-directed audit of the FEC and from funds previously deposited in the special account established pursuant to $31\,$ U.S.C. 782 related to leasing of space in the GAO building. Budget transfers in fiscal year 1997 consisted primarily of budget authority transferred-in from the Department of Health and Human Services for GAO-directed work related to Medical Savings Accounts. Reimbursements from cost sharing and pass-through contract arrangements consisted primarily of collections from other federal entities for the support of the Joint Financial Management Improvement Program and FASAB and collections from other federal entities that utilize standing GAO contracts for obtaining accounting and auditing services from CPA firms. The costs and reimbursements for these activities are not included in the Statement of Net Cost.

NOTE 7. LEASES

Capital Leases

GAO has entered into several noncancelable capital leases under which the ownership of the equipment covered under the leases transfers to GAO when the leases expire. When GAO enters into these leases, the present value of the future lease payments is capitalized and recorded as a liability.

Operating Leases

GAO leases office space from the General Services Administration and has entered into various other operating leases for office communication and ADP equipment. Generally, leases are cancelable by either party without penalty, upon 120 days' notice, and future lease payments are not accrued as

NOTES TO PRINCIPAL STATEMENTS

liabilities. Lease costs for office space and equipment for fiscal years 1998 and 1997 amounted to approximately \$7,300,000 and \$9,200,000, respectively. GAO's estimated future minimum lease payments are as follows:

Dollars in Thousands	
Fiscal Year End September 30	Total
1999	\$7,204
2000	5,008
2001	4,437
2002	3,178
2003	3,009
Thereafter	5,446
Total Estimated Future Lease Payments	\$28,282

NOTE 8. FEDERAL EMPLOYEE BENEFITS

All permanent employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective January 1, 1987. Temporary employees and employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA). GAO makes matching contributions to the CSRS, FERS, and FICA and matches employee contributions to the thrift savings component of FERS up to 5 percent of basic pay. The pension expense recognized in GAO's principal statements for fiscal years 1998 and 1997 amounted to approximately \$34,514,000 and \$34,250,000, respectively. These amounts include pension costs financed by OPM and imputed to GAO of \$12,847,000 and \$14,535,000, respectively. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized in GAO's principal statements. However, the payments to FICA that GAO makes are recognized as operating expenses. These payments amounted to approximately \$8,696,000 and \$8,387,000 during fiscal years 1998 and 1997, respectively. Similarly, to the extent that GAO employees are covered by the thrift savings component of FERS, GAO payments to the plan are operating expenses. GAO's costs associated with the thrift savings component of FERS during fiscal years 1998 and 1997 amounted to approximately \$3,964,000 and \$3,813,000, respectively.

In addition, all permanent employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and Federal Employees Group Life Insurance Program (FEGLIP) and may continue to participate after retirement. GAO makes matching contributions to the FEHBP and FEGLIP for active employees to pay for their current benefits. GAO's contributions for active employees are recognized as operating expenses and, during fiscal years 1998 and 1997, amounted to approximately \$8,511,000 and \$8,392,000, respectively. Using the cost factors supplied by OPM, GAO has also recognized an expense in its principal statements for the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$7,341,000 and \$7,497,000 during fiscal years 1998 and 1997, respectively, and are financed by OPM and imputed to GAO.

Comptrollers General and their surviving beneficiaries who qualify and so elect to participate are paid retirement benefits by GAO under a separate retirement plan. These benefits are funded from current year appropriations and amounted to approximately \$244,500 and \$239,500 during fiscal years 1998 and 1997, respectively. Since GAO is responsible for future payments under this plan, the estimated present value of accumulated plan benefits is recorded as an unfunded liability. The estimated present value of accumulated plan benefits was \$2,496,000 as of September 30, 1998, and \$2,531,000 as of September 30, 1997.

NOTE 9. WORKERS' COMPENSATION

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for GAO employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by GAO. GAO recorded an estimated liability for claims incurred as of September 30, 1998 and 1997, and expected to be paid in future periods. The total liability also includes amounts paid to claimants by DOL as of September 30, 1998 and 1997 of \$2,176,000 and \$2,310,000, respectively, but not yet reimbursed to DOL by GAO.

Notes to Principal Statements

NOTE 10. DAVIS-BACON ACT TRUST FUNCTION

GAO is responsible for administering for the federal government the trust function of the Davis-Bacon Act receipts and payments. GAO maintains this fund to pay claims relating to the Davis-Bacon Act and Contract Work Hours and Safety Standards Act violations. Under these acts, DOL investigates violation allegations to determine if federal contractors owe additional wages to covered employees. If DOL concludes that a violation has occurred, GAO collects the amount owed from the contracting federal agency, deposits the funds into an account with the U.S. Treasury, and remits payment to the employee. GAO is accountable to the Congress and the public for the proper administration of the assets held in the trust. Trust assets under GAO's administration totaled approximately \$4,452,000 on September 30, 1998. These assets are not the assets of GAO or the federal government and are held for distribution to appropriate claimants. During fiscal year 1998, receipts and disbursements in the trust amounted to \$828,000 and \$1,312,000, respectively. Since the trust assets and related liabilities are not assets and liabilities of GAO, they are not included in the accompanying principal statements.



ERITAGE Assets

U.S. GENERAL ACCOUNTING OFFICE ANNUAL STEWARDSHIP INFORMATION AS OF SEPTEMBER 30, 1998

Heritage assets are property, plant, and equipment (PP&E) possessing one or more of the following characteristics: historical or natural significance; cultural, educational, or aesthetic value; or significant architectural characteristics. In general, the cost of heritage assets is not often relevant or determinable, and the useful life of heritage assets is not reasonably estimable for depreciation purposes. Rather, the most relevant information about heritage assets is their existence and condition. Therefore, heritage assets are required to be reported only in terms of physical units. However, in the case of the GAO building, its value is known as described below.

On October 28, 1988, Public Law 100-545 transferred control of the General Accounting Office building and land in Washington, D. C., from the General Services Administration to GAO without a monetary exchange. At the time of transfer, the depreciated value of the building was \$15,664,000, and the book value of land was \$1,191,000. GAO recorded the building and the land as assets at the values stated above.

The GAO building is listed in the National Register of Historic Places as a symbol of a new age in federal office design. The building holds historical significance as the first structure erected exclusively for occupancy by the General Accounting Office. It was one of the first federal office

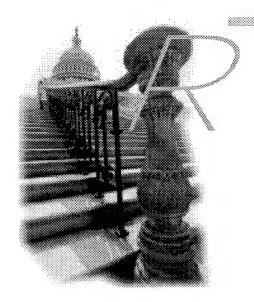
HERITAGE ASSETS

buildings to be completely air-conditioned and artificially lit; and it was the first modern, block-type building to be constructed for the federal government. Its construction marked a distinct departure from the "fish-bone" type of office building, which used either interior courts or a series of wings branching from a central spine in order to provide both air and light.

Statement of Federal Accounting Standards Nos. 6 and 8 require that heritage assets be reported in a separate stewardship reporting section and not on the SOFP. GAO removed the building and land from the SOFP with the preparation of its 1996 principal statements.

Since acquiring control of the building, GAO has expended considerable resources for renovation and improvement of the building, including asbestos abatement, major redesign of office space, installation of communication wiring for local area network, upgrading of fire alarm system, and renovation of the parking garage—all to enhance use of the building for operating purposes. The costs of these projects have been capitalized as general PP&E and depreciated over their expected useful lives. Building improvement for operational efficiency is expected to continue.

Maintenance of the building has been kept on a current basis, and the expense is recognized as incurred. There is no significant deferred maintenance cost.



EPORT OF THE AUDIT ADVISORY COMMITTEE

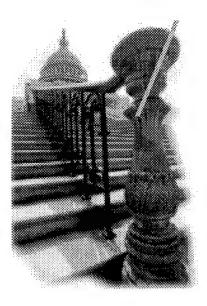
The Audit Advisory Committee advises the Comptroller General on the U.S. General Accounting Office's (GAO) financial operations. As part of that responsibility, the Committee meets with agency management and its internal and external auditors to review and discuss GAO's external financial audit coverage, the effectiveness of GAO's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact GAO's principal statements. The Committee reviews the findings of internal and external auditors, and GAO's responses to those findings, to ensure that GAO's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews and comments on drafts of GAO's annual report, including its principal statements. The Committee met three times during fiscal year 1998. During these sessions, the committee met with the internal and external auditors without GAO management being present.

Sheldon S. Cohen

Chairman

Audit Advisory Committee

hellon Stohn



NDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report

Comptroller General of the United States

We have audited the General Accounting Office's Principal Statements, referred to below, as of and for the years ended September 30, 1998 and 1997, and have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1998 and for the year then ended.

In our opinion:

- The Principal Statements are presented fairly, in all material respects; and
- Management's assertion that the General Accounting Office has an effective internal
 control structure over financial reporting, safeguarding of assets and compliance with
 applicable laws and regulations in place as of September 30, 1998 is fairly stated, in all
 material respects, based upon criteria established under the Federal Managers Financial
 Integrity Act of 1982, and the Office of Management and Budget Circular A-123,
 Management Accountability and Control.

We found:

- No material conflicts with the General Accounting Office's report on internal controls dated December 11, 1998, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982; and
- No instances of noncompliance with the selected provisions of applicable laws and regulations tested.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work.

Members Of

ADIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI OHO TEXAS VIRGINTA WISCONSIN

AMERICAN INSTITUTE DE CERTIFIED PUBLIC

Opinion On Principal Statements

In our opinion, the accompanying Principal Statements including the notes thereto on pages 60 through 74 present fairly, in all material respects, the General Accounting Office's:

- financial position as of September 30, 1998 and 1997;
- net costs of operations;
- · changes in net position;
- · status of budgetary resources; and
- · financing for the years then ended,

in conformity with generally accepted federal accounting standards as described in Note 1 to the Principal Statements.

Opinion on Management's Assertion on the Effectiveness of Internal Control

We have examined management's assertion, included in the accompanying management report on internal controls, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1998. These internal controls are designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- obligations and costs are in compliance with applicable laws and regulations;
- funds, property and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- revenue and expenditures applicable to the General Accounting Office's operations are
 properly recorded and accounted for to enable the General Accounting Office to prepare
 accounts and reliable financial reports and to maintain accountability over its assets.

In our opinion management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1998 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, Management Accountability and Control, insofar as the objectives stated above pertain to the prevention or detection of errors and irregularities in amounts that would be material to the Principal Statements. In addition, we found no material conflicts between the results of our examination and the General Accounting Office's report on internal controls dated December 11, 1998, voluntarily prepared under the Federal Managers' Financial Integrity Act of 1982.

Independent Auditor's Report

In addition, we considered the General Accounting Office's internal controls over Annual Stewardship Information by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on the internal control over Annual Stewardship Information, and accordingly, we do provide an opinion on such control.

Finally, with respect to the internal control related to those performance measures determined by management to be key and reported in the Overview of Operations and Financial Management and other supplemental information in "Highlights of GAO Reports and Testimony" and in "Supplement to the Comptroller General's 1998 Annual Report", we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether it has been placed in operation, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on the internal control over reported performance measures, and accordingly, we do not provide an opinion on such control.

Compliance With Laws and Regulations

As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatement, we performed tests of the General Accounting Office's compliance with selected provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the objective of our audit of the Principal Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This conclusion with respect to our tests of compliance with selected provisions of applicable laws and regulations is intended solely for the information of Congress and the General Accounting Office's management. However, this report is a matter of public record and its distribution is not limited.

Responsibilities and Methodology

Management has the responsibility for:

- preparing the Principal Statements in conformity with generally accepted federal accounting standards as described in Note 1 to the Principal Statements;
- · establishing and maintaining an effective internal control structure; and
- · complying with applicable laws and regulations.

Further, management has voluntarily elected to comply with all of the relevant provisions of the Federal Managers' Financial Integrity Act of 1982 and the Federal Financial Management Improvement Act of 1996.

Our responsibility is to express an opinion on the Principal Statements, based on our audits and express an opinion on management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations based on our examination. Accordingly, we planned and performed the audits and examination to obtain reasonable assurance about whether (1) the Principal Statements are free of material misstatement and are presented in accordance with generally accepted federal accounting standards as described in Note 1 to the Principal Statements and (2) management's assertion that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1998 is fairly stated, in all material respects, based upon criteria established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Circular A-123, Management Accountability and Control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the Principal Statements.

In order to fulfill these responsibilities, we

- examined on a test basis, evidence supporting the amounts and disclosures in the Principal Statements:
- assessed the accounting standards used and significant estimates made by management;
- · evaluated the overall presentation of the Principal Statements;
- obtained an understanding of the internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations;
- tested and evaluated the design and operating effectiveness of relevant internal controls
 over significant cycles, classes of transactions, and account balances, and certain
 performance measures determined by management to be key and reported in the Overview
 of Operations and Financial Management and other supplemental information in

Independent Auditor's Report

"Highlights of GAO Reports and Testimony" and in "Supplement to the Comptroller General's 1998 Annual Report";

- tested compliance with selected provisions of laws and regulations that may materially affect the Principal Statements;
- · performed other procedures as we considered necessary in the circumstances; and
- compared, at management's request, the General Accounting Office's most recent Federal
 Managers' Financial Integrity Act of 1982 report on internal controls dated December 11,
 1998 with the results of our examination of management's assertion, included in the
 accompanying management report on internal controls, that the General Accounting Office
 has an effective internal control structure over financial reporting, safeguarding of assets
 and compliance with applicable laws and regulations in place as of September 30, 1998.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives identified in our opinion on management's assertion on the internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. We also caution that projecting the results of our examination to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

Our audits were conducted in accordance with generally accepted auditing standards; Government Auditing Standards, as issued by the Comptroller General of the United States; and OMB Bulletin 98-08, Audit Requirements for Federal Financial Statements. Our examination of management's assertion, included in the accompanying management reports on internal controls and financial systems, that the General Accounting Office has an effective internal control structure over financial reporting, safeguarding of assets and compliance with applicable laws and regulations in place as of September 30, 1998 was conducted in accordance with standards established by the American Institute of Certified Public Accountants; Government Auditing Standards, as issued by the Comptroller General of the United States; and OMB Bulletin 98-08, Audit Requirements for Federal Financial Statements. We believe that our audits and examination provide a reasonable basis for our opinions.

Required Supplementary Stewardship Information. The annual stewardship information on pages 75 and 76 is not a required part of the Principal Statements but is supplementary information required by federal accounting standards. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

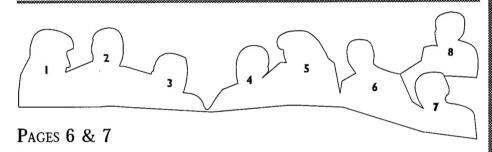
Consistency of Other Information. The Overview of Operations and Financial Management and other supplemental information in "Highlights of GAO Reports and Testimony" and in

"Supplement to the Comptroller General's 1998 Annual Report" contain a wide range of data, some of which is not directly related to the Principal Statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the Principal Statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the Principal Statements, the report, or the other information require revision. Nothing came to our attention to indicate that this information is materially inconsistent with the Principal Statements.

Clifton Lunderson L.L.C.

Greenbelt, Maryland December 11, 1998





HIGHLIGHTS OF GAO REPORTS AND TESTIMONY

- PHOTO 1 SUSAN KLADIVA, Associate Director, Energy, Resources, and Science Issues, Resources Community, and Economic Development Division
- PHOTO 2 JAMES K. MEISSNER, Associate Director, Energy, Resources, and Science Issues, Resources Community, and Economic Development Division
- PHOTO 3 JAMES F. HINCHMAN, Principal Assistant Comptroller General
- Photo 4 Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division
- PHOTO 5 RONA B. STILLMAN, Chief Scientist for Computers and Telecommunications, Accounting and Information Management Division
- PHOTO 6 ROBERT P. MURPHY, General Counsel
- PHOTO 7 CARLOTTA JOYNER, Director, Education and Employment Issues, Health, Education and Human Services Division
- Photo 8 J. Christopher Mihm, Associate Director for Management Issues, General Government Division

Designer: Theresa Mechem

COVER PHOTOGRAPH AND PHOTOGRAPH OF MR. WALKER: RICHARD ROCKBURN

